Manitoba
September, 2002

OFFICE OF THE
AUDITOR GENERAL

Investigation of the Rural Municipality of St. Clements
and
Review of Municipal Financial Accounting and Reporting Standards in Manitoba

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September 2002

The Honourable George Hickes
Speaker of the House
Room 244, Legislative Building
Winnipeg, Manitoba
R3C 0V8

Dear Sir:

I have the honour to transmit herewith my September 2002 report on the Investigation of the Rural Municipality of St. Clements and Review of Municipal Financial Accounting and Reporting Standards in Manitoba to be laid before Members of the Legislative Assembly in accordance with the provisions of Section 28 of The Auditor General Act.

Respectfully submitted,

Jon W. Singleton, CA•CISA
Auditor General

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REFLECTIONS OF THE AUDITOR GENERAL

An important contributor to an organization's effective governance is the availability of complete and accurate financial information. This information must be presented in a way that facilitates informed decision-making and clearly reports on the activities of that organization.

Chapters I and II are both directed at the importance of complete and accurate financial information.

Chapter I concludes on a number of allegations we received from citizens concerning the operations of the Rural Municipality of St. Clements (RM). These allegations included issues of non-compliance with sections of The Municipal Act with respect to By-Laws, public participation, and the timing of seeking Municipal Board approval where required. The RM's financial plans and financial statements were alleged to be unreliable and non-transparent. We found that the allegations had substance.

Effective governance is built upon the four pillars of stewardship, leadership, responsibility, and accountability. An effective relationship between a governing body and senior management is a key element of good governance. I believe that the absence of a well-functioning relationship at the RM contributed to the fact that Council, in a number of instances, did not have appropriate and complete information before it to support effective decision-making. I further believe that the lack of appropriate and complete financial information contributed to a number of the problems highlighted in the execution of the municipality's affairs.

As a legislative auditor, I must also draw the reader's attention to the importance of compliance with legislative authority. When the Legislative Assembly passes laws respecting the operation of public institutions, the public has a right to expect that those responsible for managing the affairs of the institution will abide by the legislation. I expect this as well. When public institutions operate outside of their legislative framework, they threaten the fundamental tenets of our democratic system. It is an important part of my job to draw to the attention of Members of the Legislative Assembly significant issues of non-compliance, as I have done in this report. I encourage Members to reflect on the instances of non-compliance described in this report. They might wish to consider what steps, if any, might be appropriate to bring about a greater awareness of the importance of complying with legislative requirements as set out for Municipalities in Manitoba.

While Councillors were unable to agree on an appropriate response to our recommendations, I hope that they will seize the opportunity provided by this report to strengthen governance practices and to put processes in place that are designed to prevent a repetition of the situations we encountered.

Chapter II reviews municipal financial accounting and reporting standards in Manitoba. This work resulted from our increased awareness that improvements in municipal accounting and reporting standards are needed in Manitoba. The essential issue is ensuring that citizens receive understandable and consistent financial reporting on the activities of municipalities. In Canada, that means reporting in accordance with generally accepted accounting principles (GAAP) as set out by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants in the form of PSAB recommendations. When financial reporting deviates from GAAP, it is more difficult for citizens to understand the financial information reported, and therefore more difficult to hold elected officials accountable. PSAB recommendations are intended to improve the understanding, completeness, and comparability of municipal financial statements and, therefore, the financial information that is available to decision-makers and the public.

I am encouraged by the expressed commitment of the Department of Intergovernmental Affairs to require the adoption of GAAP by municipalities as soon as practicable.

In the work of my Office, we will continue to encourage good governance practices and the provision of complete and appropriate financial information to citizens. I hope that public sector readers of this report will take away lessons that may be applied in their own situations to strengthen these practices.

Jon W. Singleton, CA•CISA

REPORT OVERVIEW

This report consists of the following two Chapters:

Chapter I: Investigation of the Rural Municipality of St. Clements

This chapter details our findings, conclusions and recommendations regarding allegations regarding issues of non-compliance with sections of The Municipal Act with respect to By-Laws, public participation, and the timing of seeking Municipal Board approval where required. The allegations also questioned the reliability and transparency of the RM's financial plans and financial statements.

In summary, the RM acted in non-compliance with numerous sections of The Municipal Act and The Municipal Council Conflict of Interest Act between 1997 and 2001, incurred deficits, and did not provide open and transparent financial reporting.

Chapter II: Review of Municipal Financial Accounting and Reporting Standards in Manitoba

This chapter details our findings, conclusions and recommendations regarding our review of financial accounting and reporting requirements in Manitoba. We compared practices to generally accepted accounting principles for local governments as recommended by the Canadian Institute of Chartered Accountants (CICA). These generally accepted accounting principles are found within the Public Sector Accounting Board (PSAB) recommendations.

In summary, the annual financial statements of all municipalities in Manitoba are not PSAB compliant. As such, the financial statements fail to serve their primary purpose as an understandable accountability document for the citizens of municipalities.

INVESTIGATION OF THE RURAL MUNICIPALITY OF ST. CLEMENTS

Chapter I

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1.0 Chapter Summary

In September 2000, the Office of the Auditor General (OAG) was approached by citizens of Manitoba raising a number of allegations regarding the operations of the Rural Municipality of St. Clements (RM). These allegations highlighted issues of non-compliance with sections of The Municipal Act with respect to By-Laws, public participation, and the timing of seeking Municipal Board approval where required. The allegations also questioned the reliability and transparency of the RM's financial plans and financial statements. After receiving subsequent information and conducting interviews with a number of individuals, the OAG decided to investigate the allegations.

On January 14, 2002, a letter was provided to the Reeve and the Chief Administrative Officer (CAO) of the RM indicating that the OAG planned to investigate the allegations. Section 15(1) of The Auditor General Act permits the Auditor General to perform an examination and audit in respect of a recipient of public monies.

This investigation was conducted from January 2002 to May 2002 and included extensive interviews, analysis of financial information, and a review of correspondence and other supporting documentation. Our work consisted of such examinations and procedures that we determined were necessary to address the allegations raised, and any other issues that arose during the course of this investigation. Our investigation dealt with documentation and financial matters of the RM from 1997 to 2001.

In summary, our investigation confirmed that the allegations have substance. Some of the main findings include the following:

- The RM has not acted in compliance with numerous sections of The Municipal Act and The Municipal Council Conflict of Interest Act.
- The RM did not provide complete and accurate information regarding capital projects in its annual financial plans or in its annual financial statements. As a result, readers of the financial plans and financial statements have not been fully informed.
- The RM lacked proper capital project monitoring and reporting procedures which led to project cost overruns not being identified on a timely basis.
- The RM lacked appropriate monitoring and review procedures over general operating fund revenues and expenditures. This was mainly due to operating budgets and monthly financial statements not being prepared on a timely basis and in a format conducive to effective monitoring and decision making by Council.
- Council does not have a strategic planning process in place that formally documents the strategic direction and annual goals of the RM. Further, Council's governance practices are weak, which has likely contributed to the operating deficits incurred, the cost overruns on capital projects and the numerous examples of non-compliance with The Municipal Act.
- The RM lacks appropriate review and monitoring procedures and policy in a number of basic administrative areas.

These findings raise concern that weak accounting, budgeting and project management practices may have contributed to the RM's operating deficits and its mill rate increase.

We believe that the failure of a public organization to comply with its enabling legislation is a serious matter. Changes to The Municipal Act effective in 1997, provided municipalities with added autonomy and authority. It is therefore even more important for municipalities to be clearly accountable to their ratepayers for their actions. As noted throughout this report, the RM failed to comply with The Municipal Act and The Municipal Council Conflict of Interest Act on numerous occasions.

The detailed allegations and conclusions from the report are replicated in the following table.

Summary of Allegations and Conclusions

Allegations	Conclusions
Financial Plans (Section 5.0) • That the RM adopted annual financial plans projecting an operating deficit without prior Ministerial approval.	• The RM did not act in compliance with Section 164(3) of The Municipal Act, by adopting budgets projecting deficits for the years 1997, 1998, 1999 and 2000 without prior Ministerial approval.
• That expenditures and the sources of funding for the capital projects were not disclosed in the RM's financial plans.	• The RM did not act in compliance with Sections 166 and 167 of The Municipal Act as the estimates of capital expenditures and sources of funding for the regional landfill facility, the Lockport treatment plant and the four solid waste transfer station projects were not disclosed in the RM's financial plans.
• That the RM was not filing its financial plans with the Minister by the date specified in The Municipal Act.	• The RM was not in compliance with Sections 162(4) and 162(5) of The Municipal Act when it failed to file its 1999 and 2000 financial plans with the Minister by the May 15 deadline, and did not request an extension.
• That the RM was not achieving its targeted surpluses or deficits as set out in the financial plans.	• The RM did not finalize its financial plans (operating budget) on a timely basis for the years 1997, 1998, 1999, 2000 and 2001. • The interim operating budget adopted by Council is not used for monitoring/control purposes. As a result, Council does not have the necessary information available on a timely basis to facilitate decision making. • The absence of a timely operating budget being in place may have contributed to significant variances between actual results and budget for the years 1997, 1998, 1999 and 2000. • The operating losses incurred by the RM from 1998 to 2000 may have contributed to increases in the RM's general municipal mill rate in 2000 and 2001.
Financial Statements (Section 6.0) • That the RM incurred operating deficits and incurred them without Ministerial approval.	• The RM incurred operating deficits in the years 1998, 1999 and 2000. As discussed in Section 5.4, the lack of timely financial monitoring and control reflects poor business practices and may have contriubted to the RM incurring these operating deficits. • The RM did not act in compliance with Section 165(1) of The Municipal Act as Ministerial approval for these operating deficits was not obtained in a timely or complete manner. • The request for Ministerial approval of the 1999 and 2000 operating deficits occurred prior to authorization by Council.
• That the annual audited financial statements did not disclose all capital project revenue and expenditure transactions as required in Statement 13 of the Department of Intergovernmental Affairs prescribed annual financial statement form.	• The reporting of capital project funding and expenditures on the annual audited financial statements of the RM was not complete and accurate in 1997 and 1999. • The lack of disclosure of capital project funding and expenditures in the RM's annual audited financial statements of 1997 and 1999 resulted in readers not being fully informed.
• That certain capital assets were not disclosed as required in Statement 3 of the Department of Intergovernmental Affairs prescribed annual financial statement form.	• Due to the inadequate maintenance of the capital asset general ledger accounts and the lack of a capital asset listing, there is no assurance that the capital assets disclosed on the RM's annual audited financial statements are accurate. • The RM has not adequately specified a policy and procedures for the recording of capital assets. There should also be financial statement note disclosure outlining the capital asset policy of the RM.
• That Council was not reviewing nor approving the monthly financial statements.	• Monthly financial statements are not prepared nor reviewed on a timely basis. As well, the statements are not presenting financial information in a format conducive to effective monitoring and decision-making by Council.

Summary of Allegations and Conclusions

Allegations	Conclusions
Municipal Expenditures (Section 7.0)	
• That the RM does not have formal policies and procedures regarding the approval of municipal expenditures.	• The RM does not have a formal policy in place in the area of expenditure authority. The RM is approving significant expenditures in many instances after the commitment has been made or the goods/services have already been received. • At this time, Council is not authorizing all expenditures of the RM since payments made by electronic funds transfer are not included in the closed list of accounts presented to Council. • Council, or a delegate of Council, does not perform a regular review of the expenses incurred on corporate credit cards.
• That the RM did not consistently follow its documented tendering policy.	• By using inconsistent tendering practices, the RM may not be achieving the stated purpose of its tendering policy, which is to purchase goods and services in the most economical and efficient manner. • The current wording of the RM's tendering policy does not encourage consistent tendering practices for the purchase of goods and services. Further, the policy does not include any requirement for Council to formally document reasons for its decisions not to request tenders.
Capital Project Monitoring and Reporting (Section 8.0)	
• That the RM did not adequately monitor and report capital project costs.	• In our view, the lack of appropriate budgeting, contracting, and project management practices likely contributed to the significant cost overruns on the capital projects. Council did not receive adequate information to properly monitor the capital projects. Progress estimates, comparing actual costs to budget, should have been prepared for these projects. While project cost overruns may still have occurred, the provision of appropriate and timely information to Council would have allowed Council the opportunity to make more timely decisions. The RM should have known early in 1999 that additional funding was required to complete the projects.
Borrowing Authority (Section 9.0)	
• That the RM applied for borrowing authority from the Municipal Board to cover the over-expenditure incurred on capital projects almost two years after these projects were constructed and fully operational.	• In our view, by failing to follow the requirements of The Municipal Act to obtain Municipal Board approval for borrowings prior to the expenditure of monies on the capital projects, the RM exposed its citizens to the risk that unnecessary debt would be incurred. - The RM was not in compliance with Section 176 of The Municipal Act, as Municipal Board approval for By-Law No. 7-1998 was not obtained prior to giving it third reading. The Municipal Board in its ruling on By-Law No. 7-1998 in November, 1998 noted this, and also stated that no further debentures were to be issued for financing the costs of works completed under By-Law No. 18-1996. The Municipal Board advised us that this wording was not unique to the RM, and is the standard wording used when the issuance of debentures is sought and the full extent of the borrowing has been debentured. - The RM's public hearing advertisements in April 2001 for these By-Laws provided misleading information to the citizens of the RM by not clearly stating that the capital projects had already been constructed and that the additional borrowing was to cover capital project cost overruns. • We believe that it was inappropriate for Council to spend monies prior to receiving appropriate Municipal Board approval.

Summary of Allegations and Conclusions

Allegations	Conclusions
Borrowing Authority (Section 9.0) [cont'd.] • That Council approved the purchase/lease of certain equipment prior to obtaining borrowing authority from the Municipal Board. This is contrary to The Municipal Act and may be considered unauthorized expenditures.	• By failing to follow the requirements of The Municipal Act to obtain Municipal Board approval prior to borrowings, the RM exposed its citizens to the risk that debt would be unnecessarily incurred. - By entering into lease agreements for the graders, the fire equipment trucks, and the photocopier for a period over three years (borrowing) without By-Law authorization, the RM was not in compliance with Sections 174(1) and 176 of The Municipal Act.
Tipping Fees (Section 10.0) • That the RM began collecting tipping fees at the landfill site with no By-Law/Resolution in place authorizing the fee structure.	• The RM followed poor business practices as follows: - The RM began collecting tipping fees at the regional landfill facility prior to Council authorizing the collection of fees and setting of rates through Resolution or By-Law. - The RM began charging certain users of the regional landfill facility the $22.50 per tonne rate, prior to Council authorizing the revised rate. - Certain users of the regional landfill facility were being charged less than the $22.50 per tonne rate without appropriate authorization.

The following table summarizes the other issues reviewed and conclusions.

Summary of Other Issues Reviewed and Conclusions

Other Issues Reviewed	Conclusions
The Municipal Council Conflict of Interest Act (Section 11.0)	• The RM of St. Clements is not in compliance with the disclosure, recording and reporting requirements under numerous sections of The Municipal Council Conflict of Interest Act.
Governance (Section 12.0)	• Council's governance practices are weak. Overall, decision-making does not occur in an effective and efficient manner, and the RM's management and operations are not being effectively managed and overseen by Council. It is likely that weak governance has contributed to the operating deficits incurred, the cost overruns on capital projects, and the numerous examples of non-compliance with The Municipal Act.
Other Administrative Issues (Section 13.0) • Sundry Accounts Receivable (SAR)	• With no policy in place for SAR, including the providing of credit to Councillors and staff, the RM has an undue risk that a loss from uncollectable amounts could result. • The authorization of the write-off of receivables is an important control process. By not requiring that all write-offs be authorized, Council may be exposed to an unnecessary risk of inappropriate adjustments to receivables.
• Tax Assets Receivable	• The RM does not have appropriate procedures in place for monitoring and collecting outstanding tax assets receivable which increases the risk that the RM may not be able to collect monies to which it is entitled as receivables age.
• Supplementary Reports	• The RM's administration and Council have not appropriately addressed the observations and recommendations included in supplementary reports provided by external auditors in each of the years reviewed.
• Councillor Compensation and Expenses	• The reporting of Councillor expenses on the RM's annual audited financial statements from 1997 to 1999 was not properly disclosed.

As a result of this investigation, the following recommendations are provided:

Recommendations for the RM

Compliance with Legislation

- *That the RM operate in compliance with The Municipal Act and The Municipal Council Conflict of Interest Act. To assist in this regard, the RM could develop the following:*
    - *A summary of the mandatory and discretionary provisions in the relevant legislation to be used as a guide and reference for the future activities of the RM; and*
    - *A summary of activities where municipalities are required to act under by-laws as per The Municipal Act, to be used as a guide and reference by Council and the RM's administration.*

Financial Accountability and Transparency

- *That the RM significantly improve its overall monthly and annual financial budgeting, accounting, reporting, and disclosure practices.*
- *That the RM significantly improve its capital budgeting, contracting and project management practices.*
- *That the RM respond to the recommendations of their external auditors, as presented in their supplementary report, on a timely basis.*
- *That the RM develop policies and procedures for the recording of capital assets, undertake a detailed review of the capital asset general ledger accounts, and establish capital asset listings to document the assets currently held by the RM.*
- *That the RM develop and implement a formal policy over expenditure authority, including delegation of authority.*
- *That the RM establish a tendering policy that is applied consistently for significant purchases of goods and services.*
- *That, in the future, Council formally approve all tipping fee rates at the regional landfill facility prior to users being charged the rates.*
- *That the RM develop and implement a formal policy and procedures over sundry accounts receivable identifying conditions whereby credit will or will not be provided to staff and/or councillors and addressing monitoring and collection procedures.*
- *That the RM develop and implement a formal policy and procedures over the monitoring and timely collection of outstanding tax assets receivable.*

Governance

- *That the Council significantly improve its governance practices in order to ensure effective management and oversight of the RM.*

Recommendation for the Department of Intergovernmental Affairs

- *That the Department review the results of this investigation with a view to considering its role in ensuring that municipalities follow proper governance practices, including compliance with legislation, and financial accountability and transparency.*

Recommendation for the Municipal Board

- *That the Municipal Board review the results of this investigation with a view to considering its role as the final approving authority of municipality borrowing by-laws, in particular, with respect to:*
    - *the quality of the information provided by the municipality seeking approval of a borrowing by-law; and*
    - *its responsibility in circumstances where the municipality seeking approval of a borrowing by-law has already incurred the expenditure contemplated by that borrowing by-law.*

Learnings for Other Municipalities

- *That all municipalities review their experiences over the last few years under the 1997 amended Municipal Act and The Municipal Council Conflict of Interest Act, and consider whether they are operating fully in compliance and meeting the objectives of these Acts.*

2.0 Introduction

2.1 INTRODUCTION

In September 2000, the Office of the Auditor General (OAG) was approached by citizens of Manitoba raising a number of allegations regarding the operations of the Rural Municipality of St. Clements (RM). These allegations highlighted issues of non-compliance with sections of The Municipal Act with respect to By-Laws, public participation, and the timing of seeking Municipal Board approval where required. The allegations also questioned the reliability and transparency of the RM's financial plans and financial statements. After receiving subsequent information and conducting interviews with a number of individuals, the OAG decided to investigate the allegations.

On January 14, 2002, a letter was provided to the Reeve and the Chief Administrative Officer (CAO) of the RM indicating that the OAG planned to investigate the allegations. Section 15(1) of The Auditor General Act permits the Auditor General to perform an examination and audit in respect of a recipient of public monies.

2.2 SCOPE

This investigation was conducted from January 2002 to May 2002 and included extensive interviews, analysis of financial information, and a review of correspondence and other supporting documentation. Our work consisted of such examinations and procedures that we determined were necessary to address the allegations raised, and any other issues that arose during the course of this investigation.

Our investigation dealt with documentation and financial matters of the RM from 1997 to 2001.

3.0 Background

3.1 THE MUNICIPAL ACT

Municipalities in Manitoba are formed and dissolved by the Lieutenant Governor in Council under the authority of The Municipal Act. Responsibility and authority for the administration of The Municipal Act rests with the Minister of Intergovernmental Affairs and the Department of Intergovernmental Affairs.

The Municipal Act sets out the purposes of a municipality as follows:

- To provide good government;
- To provide services, facilities or other things that, in the opinion of the council of the municipality, are necessary or desirable for all or a part of the municipality; and
- To develop and maintain safe and viable communities.

The Municipal Act governs the operations of a municipality, and sets out the role and duties of the elected Council, and the procedures to be followed for passing Resolutions and By-Laws. Under The Municipal Act, a municipality is a corporation, has the rights of and is subject to the liabilities of a corporation, and may exercise its powers for municipal purposes.

3.2 THE RURAL MUNICIPALITY OF ST. CLEMENTS

The RM of St. Clements is located northeast of the City of Winnipeg, continuing to the southern tip of Lake Winnipeg (see Appendix A), and encompasses a land area of 728.7 square kilometres, with a population of approximately 8,500. The RM's largest centres are East Selkirk, which is located along the Red River in the south, and Grand Beach/ Grand Marais, on the southern shores of Lake Winnipeg. The RM's municipal offices are located in the town of East Selkirk.

The RM's Council is composed of a Reeve and six Councillors, who hold regular Council meetings twice per month. Council is responsible for the hiring of a CAO to manage the affairs of the municipality. The CAO must act with the authorization of Council and its By-Laws, Resolutions, policies, and procedures. The RM's organizational structure is illustrated in Appendix B.

3.3 RM OF ST. CLEMENTS' GENERAL OPERATING FUND REVENUES

The RM receives financial assistance from the Province in the form of conditional and unconditional grants, as well as grants in lieu of taxes. According to its annual audited financial statements for the year ended December 31, 2001, the RM received approximately $298,000 of financial assistance from the Province.

Further, the RM receives an allocation of tax revenue realized by the Province under federal income tax legislation. This funding is paid out to the RM on a per capita basis. According to its annual audited financial statements for the year ended December 31, 2001, the RM received approximately $281,000 under this tax sharing program.

The majority of municipal operating revenue is derived through local taxation. The Assessment Branch of the Department of Intergovernmental Affairs provides each municipality with annual assessment rolls, which indicate the assessed value of each property in the municipality. During the budget process each year, municipalities set their mill rate which is applied to the assessed value of each property, in order to determine the property tax bill.

Figure 1 provides a summary of the RM's general operating fund revenue for 1997 to 2001.

FIGURE 1

General Operating Fund Revenues

	1997	% of Total	1998	% of Total	1999	% of Total	2000	% of Total	2001	% of Total
Tax Levy/Taxes Added	$2,094,391	57.7	$2,175,375	69.5	$2,293,969	64.7	$2,608,902	70.1	$2,803,665	59.0
Tax Penalties	63,916	1.7	51,083	1.6	58,737	1.7	58,593	1.6	112,786	2.4
Licenses/Permits/Fines	44,484	1.2	19,529	0.6	21,903	0.6	27,981	0.7	17,663	0.4
Sales of Goods and Services/Rentals	54,018	1.5	46,789	1.5	92,249	2.6	76,603	2.1	764,687	16.1
Returns on Investments	85,797	2.4	46,183	1.5	26,870	0.8	30,207	0.8	57,262	1.2
Miscellaneous Revenue	303,431	8.4	209,462	6.7	473,455	13.3	338,225	9.1	2,905	.1
Provincial Government Grants	758,861	20.9	361,649	11.6	317,574	8.9	315,892	8.5	297,939	6.3
Provincial/Municipal Tax Sharing Payments	224,999	6.2	219,527	7.0	264,052	7.4	265,097	7.1	280,911	5.9
Federal Government Grants	-		-		-		-		13,218	.3
Transfer from Accumulated Surplus	-		-		-		-		396,490	8.3
Total Revenue	$3,629,897		$3,129,597		$3,548,809		$3,721,500		$4,747,526	

Source: RM's Annual Audited Financial Statements

4.0 Allegations

We received a number of allegations concerning the RM's operations and financial information for the years ended December 31, 1997 to December 31, 2001 as follows:

- **Financial Plans (Section 5.0)**
    - That the RM adopted annual financial plans projecting an operating deficit without prior Ministerial approval, contrary to Section 164(3) of The Municipal Act.
    - That expenditures and the sources of funding for capital projects were not disclosed in the RM's financial plans, contrary to Sections 166 and 167 of The Municipal Act.
    - That the RM was not filing its financial plans with the Minister by the date specified in Section 162(4) of The Municipal Act.
    - That the RM was not achieving its targeted surpluses or deficits as set out in the financial plans.
- **Financial Statements (Section 6.0)**
    - That the RM incurred operating deficits and incurred them without Ministerial approval, contrary to Section 165(1) of The Municipal Act.
    - That the annual audited financial statements did not disclose all capital project revenue and expenditure transactions as required in Statement 13 of the Department of Intergovernmental Affairs prescribed annual financial statement form.
    - That certain capital assets were not disclosed as required in Statement 3 of the Department of Intergovernmental Affairs prescribed annual financial statement form.
    - That Council was not reviewing, nor approving the monthly financial statements.

- **Municipal Expenditures (Section 7.0)**
    - That the RM does not have formal policies and procedures regarding the approval of municipal expenditures.
    - That the RM did not consistently follow its documented tendering policy.
- **Capital Project Monitoring and Reporting (Section 8.0)**
    - That the RM did not adequately monitor and report capital project costs.
- **Borrowing Authority (Section 9.0)**
    - That the RM applied for borrowing authority from the Municipal Board to cover the over-expenditure incurred on capital projects almost two years after these projects were constructed and fully operational.
    - That Council approved the purchase/lease of certain equipment prior to obtaining borrowing authority from the Municipal Board. This is contrary to Sections 174(1) and 176 of The Municipal Act and may be considered unauthorized expenditures.
- **Tipping Fees (Section 10.0)**
    - That the RM began collecting tipping fees at the landfill site with no By-Law/Resolution in place authorizing the fee structure.

Further issues were identified during the course of conducting our investigation, and are discussed in later sections of this report:

- The Municipal Council Conflict of Interest Act (Section 11.0);
- Governance (Section 12.0); and
- Other Administrative Issues (Section 13.0).

5.0 Financial Plans

Under The Municipal Act, municipalities must adopt a financial plan for each fiscal year. The Act indicates that the financial plan must be in a form approved by the Minister and include:

- an operating budget;
- a capital budget;
- an estimate of operating revenue and expenditures for the following fiscal year; and
- a five-year capital expenditure program.

Municipalities provide various local services to their communities including police and fire protection, transportation, environmental health and planning, social assistance, economic development and recreation. The budgeting process leads to the creation of a financial plan. This is one of Council's most important functions, as the financial plan drives the annual mill rate to be applied to ratepayers in the municipality.

Before adopting the financial plan, Council must give public notice and hold a public hearing in respect of the plan. The purpose of the public hearing is to provide ratepayers with information on the financial situation of their municipality and to inform them on how the tax dollars are being spent. The public hearing gives ratepayers the opportunity to ask questions about the financial plan and to provide input to the municipality's short and long-term plans. The financial plan therefore is a key element of a municipal council's accountability and transparency to its ratepayers.

5.1 MINISTERIAL APPROVAL OF OPERATING DEFICITS PROJECTED IN FINANCIAL PLANS

Findings

- Section 164(3) of The Municipal Act: *"The council must ensure that the total amount of the estimated transfers and revenue is not less than the total amount of estimated expenditures unless, before adopting the operating budget, the council obtains the minister's written approval of the proposed budget, which may include any condition the minister considers necessary or advisable."* Therefore, municipalities must have formal approval from the Minister of Intergovernmental Affairs prior to adopting a financial plan that projects a deficit.
- The RM adopted a financial plan that projected a deficit for each of the years 1997 to 2000. (Refer to Figure 2 included in Section 5.4 of this report.) Ministerial approval for these projected deficits was not obtained by the RM in any of these years.
- The RM's financial plan for 2001 projected a balanced budget, therefore no Ministerial approval was required.
- The RM's external auditors reported that the RM adopted a financial plan that projected a deficit without Ministerial approval, in each of their annual supplementary reports for the years 1997 to 2000. Although informed of this non-compliance issue each year, Council continued to adopt financial plans that projected operating deficits until 2001.

Conclusion

- The RM did not act in compliance with Section 164(3) of The Municipal Act, by adopting budgets projecting deficits for the years 1997, 1998, 1999 and 2000 without prior Ministerial approval. As such, the citizens of the RM did not benefit from this accountability review and the RM adopted deficit budgets which, in the circumstances, did not appear to be necessary, and therefore not good business practice.

5.2 DISCLOSURE OF CAPITAL ITEMS IN THE FINANCIAL PLANS

Findings

- Section 166 of The Municipal Act: *"A council must include in its capital budget the estimates of: the amount of money required to acquire, construct, remove or improve capital property; the anticipated sources and the amounts of money to pay the [capital] costs...; and the amount of money to be transferred from the operating budget."*
- Section 167 of The Municipal Act: *"A council must include in its five year capital expenditure program each proposed expenditure for the next five years and the source of the money required to implement the program."*
- Three significant capital projects undertaken by the RM involved the construction of the regional landfill facility, the Lockport treatment plant, and four solid waste transfer stations. The RM, from 1996 to 1999, incurred significant expenditures relating to these projects.
- The capital budget section of the RM's financial plans for each of the years 1996, 1997, 1998 and 1999 did not disclose any estimate of expenditure and sources of funding for these projects, as required under Section 166 of The Municipal Act.
- Further, the five year capital expenditure program section of the RM's financial plans for each of the years 1996, 1997, 1998 and 1999 did not disclose any estimate of expenditure and sources of funding for these projects, as required under Section 167 of The Municipal Act.

Conclusion

- The RM did not act in compliance with Sections 166 and 167 of The Municipal Act as the estimates of capital expenditures and sources of funding for the regional landfill facility, the Lockport treatment plant and the four solid waste transfer station projects were not disclosed in the RM's financial plans. As such, the citizens of the RM did not have the benefit of complete information in the RM's financial plans.

5.3 LATE FILING OF FINANCIAL PLANS WITH THE MINISTER

Findings

- Section 162(4) of The Municipal Act: *"A copy of the financial plan of a municipality for a fiscal year must be filed with the minister by May 15 of that year."*
- Section 162(5) of The Municipal Act: *"A council that is unable for any reason to file its financial plan in accordance with [Section 162(4)] may in writing request an extension of time, and the minister may extend the time subject to any condition the minister considers necessary or advisable."*

- **The 1997 and 1998 financial plans were adopted by Council and filed with the Minister in accordance with The Municipal Act.**
- **The 1999 financial plan was not adopted by Council until June 3, 1999. The RM did not request an extension of time from the Minister to file its financial plan for 1999.**
- **The 2000 financial plan was not adopted by Council until July 11, 2000. The RM did not request an extension of time from the Minister to file its financial plan for 2000.**
- **The 2001 financial plan was not adopted by Council until July 10, 2001. However, in this instance, Council requested and received authority for an extension of time to file the 2001 financial plan.**

Conclusion

- The RM was not in compliance with Sections 162(4) and 162(5) of The Municipal Act when it failed to file its 1999 and 2000 financial plans with the Minister by the May 15 deadline, and did not request an extension.

5.4 COMPARISON OF ACTUAL RESULTS TO FINANCIAL PLANS

Findings

- The RM's financial plans for the years 1997 to 2001 were not adopted by Council until five or six months into the current operating year.
- Council adopts an interim operating budget near the beginning of each year to provide the RM with authority to incur expenditures until the financial plan is adopted. Section 163 of The Municipal Act: *"A council may adopt an interim operating budget to have in effect only until the council adopts the operating budget [financial plan] for the fiscal year."*
- The interim operating budget adopted is not prepared with adequate detail to be used as a reference by the RM when approving decisions for the first six months of the year.
- Figure 2 summarizes the RM's general operating fund budgeted revenues, expenditures and surplus/(deficit) amounts for the years 1997 to 2001. The actual general operating fund surplus/deficit amounts and the variance from budget amounts are also provided.

FIGURE 2

General Operating Fund Budget *

	1997	1998	1999	2000	2001
Revenues	$2,994,612	$3,258,819	$3,203,186	$3,954,194	$4,262,479
Expenditures	2,735,770	3,050,848	2,870,422	3,619,043	3,512,989
Transfers to Reserves/Surplus	372,400	218,400	343,000	343,000	749,490
Total Expenditures and Transfers	3,108,170	3,269,248	3,213,422	3,962,043	4,262,479
Budgeted Operating Surplus/(Deficit)	$ (113,558)	$ (10,429)	$ (10,236)	$ (7,849)	$ -
Actual Operating Surplus/(Deficit) **	$ 53,935	$ (231,615)	$ (102,757)	$ (386,151)	$ 24,263
Variance from Budget - (Unfavorable)/Favorable	$ 167,493	$ (221,186)	$ (92,521)	$ (378,302)	$ 24,263

* Source: RM of St. Clements Financial Plan

** Source: RM of St. Clements Annual Audited Financial Statements

- Figure 3 is a summary of the RM's general municipal mill rate for the years 1998 to 2001. The percent increase in the mill rate from the previous year and a comparison to the average percent increase from ten other municipalities is also provided.

FIGURE 3

Comparison of Municipal Mill Rate Percent Increase

	1998	1999	2000	2001
General Municipal Mill Rate - RM of St. Clements	11.256	11.406	12.406	13.406
RM of St. Clements Percent Increase	-	1.3%	8.8%	8.1%
Other Municipalities' Average Percent Increase *	-	-0.9%	1.3%	6.3%

Source: Manitoba Intergovernmental Affairs - Assessment

* The ten municipalities selected had total tax assessments, grants and total operating fund revenues similar to the RM of St. Clements.

Conclusions

- The RM did not finalize its financial plans (operating budget) on a timely basis for the years 1997, 1998, 1999, 2000 and 2001. Therefore, Council and citizens did not benefit from a timely financial plan.
- The interim operating budget adopted by Council is not used for monitoring/control purposes. As a result, Council does not have the necessary information available on a timely basis to facilitate decision making when budget information is not available to compare to actual results until six or seven months into the year.
- The absence of a timely operating budget being in place may have contributed to significant variances between actual results and budget for the years 1997, 1998, 1999 and 2000.

- The operating losses incurred by the RM from 1998 to 2000 may have contributed to increases in the RM's general municipal mill rate in 2000 and 2001.

6.0 Financial Statements

6.1 OPERATING DEFICITS

Findings

- Section 165(1) of The Municipal Act: *"When a council determines during a fiscal year that expenditures are likely to exceed the revenue and transfers provided for in its budget, the council must immediately advise the minister in writing and may incur a deficiency with the minister's written approval, which may include any condition the minister considers necessary or advisable."*
- Figure 4 is a summary of the RM's general operating fund results for the years 1997 to 2001. Over this five year period, the RM has incurred a net operating deficit of $642,325, and the accumulated general operating fund surplus has decreased by $742,185 (45%).

FIGURE 4

Summary of General Operating Fund Results

	1997	1998	1999	2000*	2001
Revenues	$3,629,897	$3,129,597	$3,548,809	$3,721,500	$4,747,526
Expenditures	3,357,562	3,102,812	3,272,566	3,758,651	3,680,561
Surplus Appropriations and Transfers	218,400	258,400	379,000	349,000	1,042,702
Total	3,575,962	3,361,212	3,651,566	4,107,651	4,723,263
General Operating Fund Surplus/(Deficit)	$ 53,935	$ (231,615)	$ (102,757)	$ (386,151)	$ 24,263
Accumulated General Operating Fund Surplus	$1,637,239	$1,405,624	$1,302,867	$ 851,056	$ 895,054

Source: RM of St. Clements Annual Audited Financial Statements

* Net adjustments of $(65,660) were made to the accumulated general operating fund surplus account per Statement 8 of the financial statements in 2000.

- The RM's annual audited financial statements for 1997 reported an operating surplus of $53,935.
- The RM's annual audited financial statements for 1998 reported an operating deficit of $231,615. No Ministerial approval for the 1998 actual operating deficit was requested.
- The RM's annual audited financial statements for 1999 reported an operating deficit of $102,757. Ministerial approval for the 1999 actual operating deficit was not requested until January 29, 2001. At that time, the Municipal Finance and Advisory Services Branch of the Department of Intergovernmental Affairs (the Branch) denied approval for the 1999

operating deficit, due to the request being submitted so long after the deficit was incurred. However, we found no apparent repercussions for the RM as a result of this denial.

- The RM's annual audited financial statements for 2000 reported an operating deficit of $386,151. On May 7, 2001, the RM requested Ministerial approval for the 2000 operating deficit in the amount of $294,489. The RM subsequently received approval from the Branch for this amount. However, the actual operating deficit for 2000 was $386,151. No request was made by the RM for Ministerial approval of this additional amount.
- We note that Council authorized that request be made to the Minister for approval of the 1999 and 2000 operating deficits at the special Council meeting of July 3, 2001 by Resolution No.'s 3 and 4, although the request for Ministerial approval had already been made on January 29, 2001 (for 1999 deficit) and May 7, 2001 (for 2000 deficit).
- The RM's annual audited financial statements for 2001 reported an operating surplus of $24,263.

Conclusions

- The RM incurred operating deficits in the years 1998, 1999 and 2000. As discussed in Section 5.4, the lack of timely financial monitoring and control reflects poor business practices and may have contributed to the RM incurring these operating deficits.
- The RM did not act in compliance with Section 165(1) of The Municipal Act, as Ministerial approval for operating deficits incurred in the years 1998, 1999 and 2000 was not obtained in a timely or complete manner.
- The request for Ministerial approval of the 1999 and 2000 operating deficits occurred prior to authorization by Council.

6.2 DISCLOSURE OF CAPITAL PROJECT REVENUES AND EXPENDITURES ON ANNUAL AUDITED FINANCIAL STATEMENTS

Findings

- We selected a sample of capital projects that the RM undertook over the past few years and determined whether they were properly disclosed on the RM's financial statements. The capital projects sampled were the regional landfill facility, the Lockport treatment plant, and the four solid waste transfer stations.
- As per the Branch's prescribed annual financial statement form, each municipality's annual financial statements is to include a Statement of Source and Application of General Capital Funds (Statement 13). See Appendix D in Chapter II of this report for a sample of this statement. The purpose of this statement is to disclose all sources of funds received

in the year for capital projects (i.e., short-term borrowings from the bank or other municipal funds, long-term borrowings such as debentures, and any government grants received). The application section of this statement is used to disclose the capital project expenditures in the year.

- The debenture proceeds of $1.9 million, received by the RM in 1997 for capital projects, and the related capital project expenditures were not disclosed on the 1997 Statement 13 as required. A revised Statement 13 was issued for 1997 that disclosed the debenture proceeds and the project expenditures, however this revised statement was not provided to the RM and, as a result, was not available to the public.
- Government grants received for capital projects in the amounts of $517,333 and $166,666 in 1999 were not disclosed on the 1999 Statement 13. These grants were applied to the capital project expenditures and only the net amount was disclosed on Statement 13.

Conclusions

- The reporting of capital project funding and expenditures on the annual audited financial statements of the RM was not complete and accurate in 1997 and 1999.
- The lack of disclosure of capital project funding and expenditures in the RM's annual audited financial statements of 1997 and 1999 resulted in readers not being fully informed.

6.3 DISCLOSURE OF CAPITAL ASSETS ON ANNUAL AUDITED FINANCIAL STATEMENTS

Findings

- The Branch-prescribed forms for annual financial statements requires capital assets to be listed in the categories of buildings, machinery and equipment, land, and other. The RM is not able to accurately present their capital assets in this format because their capital asset general ledger accounts have not been adequately maintained and reconciled.
- The RM's administration was not able to provide a reconciliation between the capital asset general ledger accounts and the reporting of capital assets on the RM's annual financial statements, as adjustments had been made by their external auditors, and the RM's administration has advised us that they did not fully understand the basis for these adjustments.
- The RM does not maintain a complete listing of capital assets currently held by the municipality.
- The RM's Policy Manual does not include policy and procedures for the recording of capital assets.

Conclusions

- Due to the inadequate maintenance of the capital asset general ledger accounts and the lack of a capital asset listing, there is no assurance that the capital assets disclosed on the RM's annual audited financial statements are accurate.
- The RM has not adequately specified a policy and procedures for the recording of capital assets. Such a policy would clearly define what expenditures should be capitalized and establish a dollar value whereby capital expenditures exceeding that value should be capitalized. There should also be financial statement note disclosure outlining the capital asset policy of the RM.
- Annual financial statements are the responsibility of the RM and, therefore, any adjustments recommended by the external auditors need to be fully understood and agreed to by the RM's administration. Our interviews indicated that the administration views the annual financial statements as the responsibility of the external auditors. However, as is clearly noted in the first paragraph of the Auditor's Report, which is included in the RM's annual financial statements: *"These financial statements are the responsibility of the Municipality Council. Our responsibility is to express an opinion on these financial statements based on our audit."*

6.4 MONTHLY FINANCIAL STATEMENTS

Findings

- Monthly financial statements are prepared at the RM. However, our review of the 2001 monthly financial statements indicated that the RM did not produce these statements on a timely basis for 8 out of the 12 months.
- The monthly financial statements presented to Council are not complete since capital fund amounts are not included.
- No formal variance analysis reports or year-end projections are prepared as information to assist Council in decision making. This is partially due to the fact that there are no useful comparatives of budget to actual figures in the monthly financial statements. Between January and June, no budget figures are included in the monthly financial statements and between July and December actuals are only compared to overall annual budgeted amounts.
- When the monthly financial statements are submitted, Council acknowledges their receipt as presented. During our attendance at Council meetings, there were no questions or comments made regarding the monthly financial statements other than one Councillor who wanted to ensure that they were not actually approving them.
- Through our interviews, the majority of Councillors indicated that they either could not understand, or were not satisfied with information provided in the monthly financial statements.

Conclusions

- The monthly financial statement review process should be one of the most effective methods for monitoring and controlling municipal expenses. Yet this RM's monthly financial statements are not prepared nor reviewed on a timely basis. As well, the statements are not presenting financial information in a format conducive to effective monitoring and decision making by Council.
- In general, there is a need for enhanced training/skills development for Councillors and municipal administrators in financial matters.

7.0 Municipal Expenditures

7.1 EXPENDITURE APPROVAL

Findings

- A review of the RM's Policy Manual indicated that the RM does not have a formal policy regarding the approval of municipal expenditures nor a delegation of expenditure authority policy.
- Council does approve municipal expenditures at Council meetings through the approval of the closed list of accounts. The closed list of accounts includes the detail of all the cheques being put forward for Council approval.
- The approval of the closed list of accounts by Council is required in most instances before the cheques are released. However, this approval is done after the commitment has occurred or the goods have already been received by the RM.
- Through interviews and our attendance at Council meetings, we found that considerable discussion occurs at Council meetings regarding individual items included on the closed list of accounts. This discussion usually concerns the nature of expenditures and the authorization of transactions, even though Council has access to the list of accounts and the invoices or other supporting documentation before the meeting.
- Periodically, the RM makes payments by electronic funds transfer rather than by cheque. We noted that when payments are made in this manner, the transaction is not included on the closed list of accounts and, as a result, is not formally approved by Council consistent with the expenditures made by cheque. For example, the RM made a duplicate payment of their fire truck capital lease in 2001. The RM issued a cheque dated October 1, 2001 in the amount of $57,804.72 and then an additional amount was charged through the RM's bank account on November 1, 2001 through electronic funds transfer. The RM's external auditors found this error during their audit.
- The RM has issued a number of corporate credit cards. While the payments are approved in total each month by Council through the approval of the closed list of accounts, there is no formal review process

of the detailed expenses incurred on these corporate credit cards by Council (or a delegate of Council) on a regular basis.

Conclusions

- The RM does not have a formal policy in place in the area of expenditure authority. The RM is approving significant expenditures in many instances after the commitment has been made or the goods/services have already been received. This allows for expenditures to be made that Council may not deem worthwhile had they been able to pre-approve a significant expenditure. By implementing a delegation of authority policy, with spending authority limits established for designated officers, Council could avoid much of the current debate at Council meetings. The Branch provides a Municipal Act Procedures Manual as a resource for municipalities. The Manual recommends that if a municipality was to adopt a delegation of authority policy, that it be included in the municipality's procedures By-Law.
- At this time, Council is not authorizing all expenditures of the RM since payments made by electronic funds transfer are not included in the closed list of accounts presented to Council.
- Council, or a delegate of Council, does not perform a regular review of the expenses incurred on corporate credit cards to ensure the expenses are for bona fide business purposes and appropriately supported.

7.2 TENDERING POLICY

Findings

- The RM's tendering policy states that Council believes the municipality should purchase all goods and services in the most economical and efficient manner. As such, all purchases of goods and services with an accumulated value in excess of $5,000 shall be forwarded to Council on a specification sheet. Council shall decide whether invited sealed tenders, open public sealed tenders, or an outright purchase shall be used. If the process of invited sealed tenders is used, at least three different quotes must be obtained. The policy further clarifies that the lowest tender shall not necessarily be accepted in all instances. Factors such as quality of product, warranty provisions, reputation of the vendor will also be taken into consideration. There is also a provision in the policy that in certain instances, preference to local vendors will be given if the variation from the lowest tender is not greater than 5%.
- We examined nine transactions during the period from 1999 to 2001 where the RM had entered into an agreement for services or purchased equipment. Of the nine transactions examined, we found that in five instances tenders were not requested where the contract was in excess of $5,000. In one instance, the RM indicated tenders were requested, however they could not locate supporting documentation.

- For the four transactions where no tenders were requested, there was no formal documentation in the minutes to support Council's decision not to request tenders. The following contracts were not tendered:
    - In May 2001, Council authorized a firm to prepare an Industrial Sector Plan at a cost of $11,350 plus taxes and disbursements. The RM advised us that this contract was not tendered since this firm had done previous work for the RM and they were pleased with their work.
    - In August 2001, Council appointed external auditors who had not done any previous audit work for the RM, to perform the 2001 audit. The RM advised us that they did not request any other proposals from other audit firms for the 2001 audit.
    - In January 2000, the RM entered into a capital lease agreement for a photocopier. The term of this lease agreement was 5 years, at a cost of $8,930 plus taxes per annum.
    - In May 1999, the RM entered into an agreement with a company to operate the regional landfill facility. The RM advised us no other formal proposals were sought as they felt that this company was the only one that could provide the services required. As a result, Council authorized the agreement after reviewing previous work done by the company.
- The contract for garbage collection in the Grand Marais area for 2001, which amounted to $60,000, was not appropriately tendered. A document entitled "Garbage Collection Tenders -Grand Marais" indicated that tenders were opened April 6, 2001 and listed three individuals/ companies and the amounts tendered by them. Of the three amounts recorded on the document, the individual who was eventually awarded the contract submitted the highest bid. The RM advised us that the contract awarded was based on different services from those that were originally requested through the tendering process. No new tenders were requested for the revised services. The amount of the awarded contract ($60,000) was the same as the original amount tendered by the individual on the tender summary dated April 6, 2001.
- The transaction where the RM indicated tenders were requested, but could not locate supporting documentation, occurred in August 1999, with a capital lease agreement for two fire trucks.

Conclusions

- By using inconsistent tendering practices, the RM may not be achieving the stated purpose of its tendering policy which is to purchase goods and services in the most economical and efficient manner.
- The current wording of the RM's tendering policy does not encourage consistent tendering practices for the purchase of goods and services. Further, the policy does not include any requirement for Council to formally document reasons for its decisions not to request tenders.

8.0 Capital Project Monitoring and Reporting

Findings

- The largest capital project undertaken by the RM over the past number of years has been the construction of the regional landfill facility. In 1989, the Minister of Environment announced an initiative to reduce waste in the province by up to 50% by the year 2000. The mandate for each municipality was to improve their waste management with their current facilities and explore opportunities for new facilities. At that time, the RM had six solid waste landfill sites that were cited for closure and were substandard in protecting the environment.
- In 1990, the RM established a reserve fund with a levy of 1.6 mills per year for future waste management projects.
- In 1994, the RM applied for, and subsequently received, an infrastructure grant under the Canada/Manitoba Infrastructure Works for the landfill project.
- The licence to construct the landfill facility was obtained from the Province on August 11, 1997. On November 4, 1998, the RM received an environmental licence to operate a Class 1 solid waste management facility and the facility commenced operations in August of 1999.
- By-Law No. 18-1996, approved by the Municipal Board, related to three capital projects: the regional landfill facility, the Lockport treatment plant and the Grand Marais lagoon. Information provided by the RM to the Municipal Board indicated that the total cost of the three projects would be $3,800,000.
- We requested a detailed analysis of the actual costs compared to budget for the three projects. The RM was not able to provide us with this analysis. For the regional landfill project, the RM was only able to provide us with details for the project's initial budget of $776,000. This initial budget for the regional landfill facility was subsequently revised to $1,800,000, and then to $2,200,000, according to correspondence obtained at the RM. However, the RM was not able to provide us with formal documentation to support the revisions.
- Since the RM did not prepare and maintain the above noted detailed project analysis, we were only able to prepare an analysis of total project costs compared to budget. Figure 5 compares the total actual project costs to budget for the three capital projects authorized under By-Law No. 18-1996.

FIGURE 5

Comparison of Total Actual Project Costs to Budget

	Budget*	Actual	Over Budget	%
Regional Landfill Facility	$2,200,000	$3,203,257**	$1,003,257	45.6
Lockport Treatment Plant	1,100,000	1,341,977	241,977	22.0
Grand Marais Lagoon	500,000	554,246	54,246	10.8
Total Costs	$3,800,000	$5,099,480	$1,299,480	34.2

Source: Accumulated from information provided by the RM.

* These are the estimated project costs at the time of submission to the Municipal Board.

** The total cost of the regional landfill facility includes the cost of the transfer stations ($166,751) which was reported as a separate capital project by the RM.

- Construction of the regional landfill facility and the Lockport treatment plant was completed in 1999. As shown in Figure 5, both projects were substantially over budget.
- Documentation included in the Municipal Board Order approving By-Law No. 18-1996 indicated that the budget of the regional landfill facility included two external transfer stations. Subsequently, the RM built four external transfer stations, at a cost of $166,751, according to the records of the RM. The RM reported this as a separate capital project and did not include them in their final reported costs of the regional landfill facility of $3,036,506. Figure 5 combines these amounts to provide a more accurate reporting of the total costs of constructing the regional landfill facility.
- The RM advised us that the reasons for the landfill cost overruns were due to the changes in size, complexity and scope of the project following the RM's original application to the Municipal Board in 1996. As a result of opposition that developed in the RM respecting the location of the landfill, the proposed location was changed. The change in location required the construction of an extended all-weather road, which was not included in the original project. In addition, during the course of construction Council approved other modifications to the project including additional transfer stations, installing an upgraded weigh scale, constructing a shop building and alteration of the drainage in the area of the landfill. These changes to the project, coupled with increased engineering fees to implement the changes, increased the cost of the landfill facility by approximately one million dollars according to the RM.
- A consulting engineering firm was engaged to provide engineering and consulting services for all three projects. There was no formal contract/agreement in place between the RM and the firm for the project services to be provided to the RM.

- Progress estimates, comparing actual costs incurred to budget, were not prepared by the RM or by the consulting engineering firm for these projects. Council approved project costs and consultant charges on an ad-hoc basis, as submitted by the various suppliers.
- Due to the lack of a proper reporting system to monitor project costs, the RM did not identify the project cost overruns on a timely basis.
- An issue has arisen concerning the design and construction of the Lockport treatment plant facility. According to the RM, the treatment plant was designed to handle wastewater from the Lockport area by way of an underground collection system and also to accept truck-hauled liquid waste (septage) from other areas within the municipality. Upon opening the facility, the RM learned that the facility did not have the capabilities to handle the truck-hauled septage, which was a critical component in the overall project proposal. As a result, only 10 residences at most are currently hooked up to and using this facility. Legal action has been undertaken on this matter by the RM against the consulting engineering firm.
- Further, our review indicated that there are no detailed budgets and business plans for future capital projects being contemplated by the RM, such as the development of an industrial park.
- We have seen no evidence of an improved process for the monitoring and reporting of planned future capital projects.

Conclusion

- In our view, the lack of appropriate budgeting, contracting, and project management practices likely contributed to the significant cost overruns on the capital projects. Council did not receive adequate information to properly monitor the capital projects. Progress estimates, comparing actual costs to budget, should have been prepared for these projects. While project cost overruns may still have occurred, the provision of appropriate and timely information to Council would have allowed Council the opportunity to make more timely decisions. The RM should have known early in 1999 that additional funding was required to complete the projects.

9.0 Borrowing Authority

In conducting this aspect of the review, we referred to the following relevant sections of The Municipal Act.

- Section 172 (c): *"[B]orrowing means the borrowing of money, and includes a lease of capital property with a fixed term beyond three years or a fixed term of less than three years but with a right of renewal that would, if exercised, extend the original term beyond three years."*
- Section 174(1) (a): *"[A] municipality may make a borrowing only if the borrowing is authorized by a by-law."*

- Section 176: *"A municipality may not make a borrowing unless the council obtains the approval of the Municipal Board before third reading of the borrowing by-law."*

The requirement under The Municipal Act for Municipal Board approval of borrowing acts, in our view, as an independent check to ensure that municipalities do not incur unsustainable debt.

9.1 BORROWING ON CAPITAL PROJECTS

Findings

- On June 13, 1996, Council gave first reading to By-Law No. 18-1996 which was to *"authorize the corporation to undertake certain work and to borrow the amount of moneys required to complete the said works"*. The Municipal Board approved this By-Law on January 23, 1997 and Council proceeded to give second and third readings to the By-Law at its meeting of February 25, 1997.
- By-Law No. 18-1996 related to three capital projects, which were the regional landfill facility, the Lockport treatment plant and the Grand Marais lagoon. Information provided by the RM to the Municipal Board indicated that the total cost of the three projects would be $3,800,000 and would be funded as follows: $700,000 from reserve funds; $700,000 from infrastructure grants; and $2,400,000 from borrowing under By-Law No. 18-1996.
- The RM accessed the $2,400,000 through the issuance of two debentures to the Province of Manitoba:
    - The first debenture in the amount of $1,900,000 was processed in 1997 through By-Law No. 6-1997, which was approved by the Municipal Board on July 17, 1997.
    - The second debenture in the amount of $500,000 was processed in 1998 through By-Law No. 7-1998, which was approved by the Municipal Board on November 5, 1998 with the following comments: *"The Municipality has inadvertently given third reading to the By-Law. The Municipality ought not to have given third reading to the By-Law until it was approved by the Board. There would have been an amendment to the By-Law if third reading was not given. That amendment would have been that the issue of said debenture provides financing for all costs of works completed under authority of said By-Law No. 18-1996 and therefore no further debentures will be issued."*
- Although the regional landfill facility, the Lockport treatment plant and the transfer stations, were completed and operational in 1999, the RM held a public hearing on May 1, 2001 to consider two further borrowing By-Laws. The advertisements that were placed in local newspapers in April 2001 to advise citizens of the public hearing, read in part, as follows:

  - *"By-Law No. 16-2000 – To construct transfer stations within the municipality and to create a debt of $200,000.00 for that purpose.*
  - *By-Law No. 3-2001 – To construct solid waste facilities within the municipality and to create a debt of $850,000.00 for that purpose."*

- The wording of the By-Laws in the advertisement implied that the projects had not yet begun, when in fact the capital costs at that time had already been paid and the facilities were operating. The capital fund had borrowed the monies from the RM's operating and reserve funds to pay these additional costs. The wording of the By-Laws might also imply that the total cost to construct the regional landfill facility would be $850,000, when in fact the actual costs for this project exceeded $3.2 million. The actual purpose of the borrowing By-Laws of $200,000 and $850,000 was to recover the capital project cost overruns and replenish the RM's operating and reserve funds.
- Discussions with the Department's Municipal Finance and Advisory Services Branch (Branch) indicate that it is common practice in municipalities for the capital fund to borrow from other funds to finance a capital project until debenture proceeds are received. However, in this instance, the RM should have known in 1999 that additional funding would be required and did not start the borrowing process.
- It was almost two years before the RM took any action to address the issue and begin the borrowing By-Law process. Once the RM finally became aware of the issues, our interviews and review of documentation indicated that the RM could not agree on how to proceed to resolve the matter.
- Borrowing By-Laws, such as the proposed By-Law Nos. 16-2000 and 3-2001 mentioned above, require Municipal Board approval as per Section 176 of The Municipal Act. On May 18, 2001, the RM forwarded these two By-Laws to the Municipal Board for their consideration and approval. The Municipal Board reviewed the By-Laws and other documentation provided by the RM as background and support for its submission. The Municipal Board subsequently rejected both By-Laws on December 21, 2001, as the works referenced in the By-Laws had already been completed and the debts had already been incurred. The Municipal Board concluded that the wording of the By-Laws was not consistent with either the intent or purpose of the By-Laws.
- On March 26, 2002, Council gave first reading to borrowing By-Law No. 4-2002 and forwarded this By-Law to the Municipal Board for their consideration and approval. This By-Law has the same intent as the rejected By-Law Nos. 16-2000 and 3-2001, which is to cover the capital cost overruns. The RM has revised the wording of By-Law No. 4-2002 and decreased the total borrowing from $1,050,000 to $1,038,283.
- The Municipal Board approved By-Law No. 4-2002 on June 17, 2002. No written comments explaining the basis for this decision was provided by the Municipal Board.

Conclusions

- In our view, by failing to follow the requirements of The Municipal Act to obtain Municipal Board approval for borrowings prior to the expenditure of monies on the capital projects, the RM exposed its citizens to the risk that unnecessary debt would be incurred.
    - The RM was not in compliance with Section 176 of The Municipal Act, as Municipal Board approval for By-Law No. 7-1998 was not obtained prior to giving it third reading. The Municipal Board in its ruling on By-Law No. 7-1998 in November 1998 noted this, and also stated that no further debentures were to be issued for financing the costs of works completed under By-Law No. 18-1996. The Municipal Board advised us that this wording was not unique to the RM and is the standard wording used when the issuance of debentures is sought and the full extent of the borrowing has been debentured.
    - The RM's public hearing advertisements in April 2001 for the above noted By-Laws provided misleading information to the citizens of the RM by not clearly stating that the capital projects had already been constructed and that the additional borrowing was to cover capital project cost overruns.
- We believe that it was inappropriate for Council to spend monies prior to receiving appropriate Municipal Board approval.

9.2 BORROWING FOR PURCHASE/LEASE AGREEMENTS

Findings

- We examined three lease agreements entered into by the RM for the purchase/lease of graders, fire equipment trucks, and a photocopier.
- At the regular Council meeting of January 12, 1999, Council approved Resolution No. 14 authorizing the Reeve and CAO to enter into a 49 month term lease agreement for four graders. The RM signed this lease agreement on March 23, 1999. However, the RM did not pass a By-Law nor obtain Municipal Board approval for this borrowing transaction, as required under Sections 174(1) and 176 of The Municipal Act.
- Subsequently, on August 22, 2000, more than a year after the RM signed the original lease agreement, first reading was given to By-Law No. 14-2000. This By-Law was intended to approve, ratify and confirm the lease agreement and authorize the Reeve and CAO to sign the lease agreement for the four graders. The Municipal Board, by Order No. E-01-027 dated March 15, 2001, rejected By-Law No. 14-2000 on the basis that approval for the borrowing could not be provided because the RM had already proceeded with the borrowing under the lease agreement dated March 23, 1999.
- At the regular Council meeting of August 24, 1999, Council approved Resolution No. 13 authorizing the purchase of fire equipment trucks through a 60 month financing plan. The RM signed this lease agreement on August 22, 1999. However, the RM did not pass a By-Law nor obtain

Municipal Board approval for this borrowing transaction, as required under Sections 174(1) and 176 of The Municipal Act.

- Subsequently, on August 22, 2000, almost one year after the execution of the original lease agreement by the RM, first reading was given to By-Law No. 15-2000. This By-Law was intended to approve, ratify and confirm the lease agreement and to authorize the Reeve and CAO to sign the lease agreement for the fire equipment trucks. The Municipal Board, by Order No. E-01-029 dated March 15, 2001, rejected By-Law No. 15-2000 on the basis that approval for the borrowing could not be provided because the RM had already proceeded with the borrowing under the lease agreement dated August 22, 1999.
- At the regular Council meeting of January 11, 2000, Council approved Resolution No. 15 authorizing the Reeve and CAO to enter into a 60 month term lease agreement for a photocopier. However, the RM did not pass a By-Law nor obtain Municipal Board approval for this borrowing transaction, as required under Sections 174(1) and 176 of The Municipal Act.
- The Municipal Board's rejection of By-Law Nos. 14-2000 and 15-2000 necessitated that the RM try to resolve this issue in order to legitimize the lease agreements. At a special Council meeting of July 17, 2001, Council authorized the revision of the lease agreements for the four graders, the fire equipment trucks and the photocopier. The only revision made to these agreements was an adjustment of the time period to 36 months or less. No changes to the equipment being leased, nor to the lease payments, were made. By making these lease agreements less than three years, By-Laws and Municipal Board approval would not be necessary.

Conclusion

- By failing to follow the requirements of The Municipal Act to obtain Municipal Board approval prior to borrowings, the RM exposed its citizens to the risk that debt would be unnecessarily incurred.
    - By entering into lease agreements for the graders, the fire equipment trucks and the photocopier for a period over three years (borrowing) without By-Law authorization, the RM was not in compliance with Sections 174(1) and 176 of The Municipal Act.

10.0 Tipping Fees

Findings

- The RM's regional landfill facility commenced operations in May 1999. Tipping fees were being collected but the rate had not yet been set. A resolution by Council to set the rates was not passed until January 2000 when Council authorized, by Resolution No. 17, the Solid Waste Management Program and Wastestream Newsletter which was to be distributed to all residents of the RM by mail. This package included the fee structure to be used at the landfill and transfer stations. Tipping fees at the regional landfill facility were set at $30 per tonne for residents and $40 per tonne for non-residents, effective March 1, 2000.

- Subsequently, Council adopted By-Law No. 13-2000 on September 26, 2000, which revised the tipping fees at the regional landfill facility to $22.50 per tonne for both residents and non-residents.
- Through our review of documentation, we determined that certain users of the regional landfill facility were charged at the rate of $22.50 per tonne as early as March 2000. By-Law No. 13-2000 establishing this rate was not adopted until September 26, 2000.
- Through our review procedures, we determined that some users of the regional landfill facility were being charged at a rate lower than the $22.50 per tonne established through By-Law No. 13-2000. The RM's administration provided us with reasonable explanations for the lower rates, however we could not locate any resolutions of Council authorizing the lower rates.

Conclusion

- The RM followed poor business practices as follows:
    - The RM began collecting tipping fees at the regional landfill facility prior to Council authorizing the collection of fees and setting of rates through Resolution or By-Law.
    - The RM began charging certain users of the regional landfill facility the $22.50 per tonne rate, prior to Council authorizing the revised rate.
    - Certain users of the regional landfill facility were being charged less than the $22.50 per tonne rate without appropriate authorization.

11.0 The Municipal Council Conflict of Interest Act

Findings

- The Municipal Council Conflict of Interest Act sets out the nature of the assets and interests which must be disclosed by Councillors and the procedures and timing for disclosure. Also included in this Act are procedures for Councillors to follow if conflict of interest situations arise during open and closed meetings, and how these disclosures should be documented. The following sections of this Act were examined for RM compliance:
    - Section 5(1): *"Where during any meeting there arises a matter in which a councillor or any of his dependants has a direct or indirect pecuniary interest; or a matter involving the direct or indirect pecuniary*

  interest of any person, corporation, subsidiary of a corporation, partnership, or organization to whom or which a councillor or any of his dependants has a direct or indirect pecuniary liability; the councillor shall disclose the general nature of the direct or indirect pecuniary interest or liability; withdraw from the meeting without voting or participating in the discussion; and refrain at all times from attempting to influence the matter."

  - Section 6(1): *"Where a councillor has complied with subsection 5(1), the clerk of the meeting shall record the disclosure; the general nature of the direct or indirect pecuniary interest or liability disclosed; and the withdrawal of the councillor from the meeting; and the clerk of the meeting shall subsequently file with the clerk of the municipality the information recorded…and a notation indicating whether the meeting in question was open to the public, or was a closed meeting or a meeting the minutes of which are not open to the public."*
  - Section 6(2): *"The clerk of every municipality shall keep a central record for purposes of recording information…[that discloses] the general nature of the direct or indirect pecuniary interest or liability disclosed and the withdrawal of the councillor from the meeting in the central record."*
  - Section 6(5): *"The clerk of every municipality shall make the central record … available for inspection by any person without charge during normal business hours."*
  - Section 9(1): *"Not later than the last day in November of each year, and in the case of The City of Winnipeg, not later than the fourth Wednesday in November of each year, every councillor shall file with the clerk of the municipality a statement disclosing assets and interests in accordance with section 10."*
  - Section 9(2): *"Where a councillor fails to comply forthwith with subsection (1), the clerk of the municipality shall forthwith notify the councillor in writing of the failure to comply, and the councillor shall, within 30 days of receiving the notification, file the statement referred to in subsection (1)."*
  - Section 9(3): *"Where after the filing of a statement… a councillor or any dependant of a councillor acquires or disposes of any asset or interest of the kind mentioned in section 10, the councillor shall within 30 days of the acquisition or disposal file with the clerk of the municipality a further statement disclosing the acquisition or disposal."*
  - Section 10 details the various types of assets and interests that must be disclosed under section 9.

- **Council meeting minutes do record instances where a Councillor has declared a conflict and removed themselves from the meeting.**
- **Although Council meeting minutes do record instances where a Councillor has declared a conflict, there is no disclosure regarding the general**

nature of the conflict as per Section 5(1) of the Act. As a result, this information is not recorded as per Section 6(1) of the Act.

- The RM's administration does not maintain a central record of Councillor disclosures made at open and closed meetings as required under Section 6 of the Act. The central record is to be made available for inspection by the public under Section 6(5) of the Act.
- We were advised that Councillors file a statement disclosing assets and interests only at the beginning of their term on Council. Councillors do not file a statement disclosing assets and interests each year, not later than the last day in November, as required under Section 9(1) of the Act. Further, the CAO has not advised Councillors that a statement disclosing their assets and interests is required each year, as per Section 9(2) of the Act.
- We did not observe any instances of conflict of interest other than those disclosed in the minutes.

Conclusion

- The RM of St. Clements is not in compliance with the disclosure, recording and reporting requirements under numerous sections of The Municipal Council Conflict of Interest Act.

12.0 Governance

A review of leading research and perspectives in governance suggests that effective governance is built upon four pillars:

- **Stewardship**
  As stewards of a municipality, Councillors act on behalf of their citizens and ratepayers, and are trustees of the municipality's mandate and its resources. They are therefore given the overall authority for the actions of the municipality. As a result of this stewardship, a Council needs to honour the trust its citizens have placed in it.
- **Leadership**
  Council fulfils a leadership role in society and as leaders, Councillors are expected to reflect the priorities and values of the community. Leadership is about the relationship between the governors and those governed. Therefore, Councillors need to develop positive relationships, ensure respect between parties, and build a sense of commitment.
- **Responsibility**
  Having been given a fiduciary responsibility, Council is expected to manage the resources of the municipality efficiently and effectively to accomplish the desired aims. Councillors are expected to be reliable, and to allow appropriate factors and considerations to affect their judgement, including consideration of the effect of their choices on others. They are also expected to devote the time and energy to ensure that governance is appropriate and adequate.

- **Accountability**
  Council is ultimately accountable for the municipality. Accountability is the requirement to answer for the discharge of responsibilities that have been conferred and that affect others in important ways. It requires that Councillors understand who is responsible for what, what performance is to be achieved, and what information is required to ensure appropriate decision-making.

As one aspect of our investigation, we examined the governance practices of the RM's Council. We reviewed Council minutes, policies and procedures. Extensive interviews were held with the Reeve, all current Councillors, as well as recent former Councillors. Interviews held with the RM's CAO and staff also included discussions as to the effectiveness of Council in governing the municipality's affairs.

Findings

- As noted previously, the RM's Council is comprised of a Reeve and six Councillors. The Reeve is elected from the municipality at large, while Councillors are elected from two wards, with three elected from each ward. The current Council was elected in October 1998, with the exception of one Councillor who was elected in a June 2001 by-election.
- The Reeve and half of Council are experienced members, having served numerous terms; three Councillors are currently serving their first term. All Councillors indicated a strong commitment to the municipality.
- The RM provides no formal orientation when new Councillors are elected. All Councillors informed us that they were simply provided with a copy of The Municipal Act, and required to *"learn as they go"* by attending meetings. While Councillors do attend numerous municipal conferences and conventions, there is no specific focus on providing skills training throughout their term in areas that would enhance governance such as financial training, communication, or municipal management.
- The Department of Intergovernmental Affairs provides a training session for new Councillors once every four years, after municipal elections. We were told that this course is only attended by new Councillors when first elected, as it provides a basic review of The Municipal Act and municipal procedures. While all Councillors noted that this was a useful session, all indicated that it was neither adequate nor sufficient training for the role.
- Our interviews confirmed that all Councillors are aware that a RM Policy Manual exists, however all Councillors and staff members noted that it was neither followed, nor adhered to, and that the Policy Manual has not been updated since 1998. Some Councillors expressed frustration with the inability of Council to adopt and implement new policies.
- While it was noted that the timeliness of receiving Council meeting minutes has recently improved, all Councillors noted that they had been previously frustrated with the accuracy and the time delay in receiving and approving meeting minutes.

- Council does not have a strategic planning process in place that formally documents the strategic direction and annual priorities of the RM. No overall long range strategic plan for the RM has been articulated, nor have annual business plans been prepared.
- During our interviews, all Councillors noted their frustration with the quality of information received from the RM's administration. Information provided to Council by the RM's administration is predominantly verbal reports. Written reports that include issue analysis and alternative options for Council's consideration are often not provided. Most Councillors told us that they often felt that they received "selective" information and that they were required to request further clarification on many issues. These requests were not always acted on by the administration in a timely manner.
- Council does not receive specific project plans outlining the vision, objectives, requirements, planned expenditures, and forecast revenues for capital projects being undertaken by the municipality.
- Council has a fiduciary duty to be aware of, and responsible for, the overall financial position of the municipality. The majority of Councillors told us that they do not clearly understand the monthly financial statements, and that they find the Branch's prescribed annual financial statement form to be confusing. Financial information is not presented to Council in a way that enables clarity and understanding, nor is it presented in a timely enough manner to enable effective decision-making. Little discussion occurs on the RM's overall financial position, year-to-date expenditures, or budget variances. This hampers Council from making any meaningful changes early enough to ensure that the RM does not incur operating deficits.
- Although most Councillors are appointed by Resolution to act as a "Council Liaison" for a particular area of responsibility, no specific committees have been established. As per section 3 of By-Law No. 21-2000, *"all matters not dealt with by Council shall be dealt with by the Committee of the Whole Council with no separate committees being established"*. These Committee of the Whole meetings are held twice a month to discuss specific issues in a somewhat less formal manner than a regular Council meeting. Our interviews confirmed that this becomes, in effect, another Council meeting rather than the more common governance practice of establishing standing committees as a way for Council to be provided background research, and recommendations on specific issues. For example, no Audit Committee or Finance Committee exists which could play a useful role in reviewing the administration's financial information, analyzing budget variances on a monthly basis, and providing up-to-date, summarized financial information to Council.
- Our interviews revealed that a large amount of dissension and conflict among Councillors interrupt and impede the work of Council. We were told of a number of instances in which these conflicts prevented Council meetings from dealing with municipal business in an appropriate manner and led to delays in decision-making.

- The relationship between a Council and its CAO is arguably the most important relationship in municipal governance. Our interviews noted that the CAO's role and responsibilities vis-à-vis Council are not clearly delineated nor are the authorities clearly specified. Performance evaluations of the CAO have not been conducted on an annual basis.
- Our interviews noted that Council is overly involved in operational matters. For example, unnecessary delays are created in finalizing the financial plan and the Public Works Department's schedule, due to the RM's practice of Councillors suggesting Ward Projects and dividing the Public Works budget ($240,000 in 2001) amongst their own personal priorities. The Public Works Department has not been asked to identify and priorize projects based on their operational expertise and knowledge of the RM's needs.
- All governing bodies need to be clearly accountable to their stakeholders; in this case, the RM's citizens. Although all Council meetings are open to the public, Council has not adopted appropriate processes for public participation in the meetings. We noted instances in which the absence of these processes and the lack of Council response to public concerns, contributed to a breakdown in communication between Council and its citizens. As one Councillor noted, *"people came frustrated and left even more frustrated"*.
- It was clear from our interviews that a pervasive attitude exists among Councillors and the RM's administration, that compliance with The Municipal Act is optional. No Councillor felt that there would be any consequences to not complying with The Municipal Act.
- During our interviews, the majority of Councillors expressed frustration with the inability of Council to come to decisions in an effective and efficient manner. Councillors noted that it often took too much time and too many meetings to arrive at a decision.

Conclusion

- Council's governance practices are weak. Overall, decision-making does not occur in an effective and efficient manner, and the RM's management and operations are not being effectively managed and overseen by Council. It is likely that weak governance has contributed to the operating deficits incurred, the cost overruns on capital projects, and the numerous examples of non-compliance with The Municipal Act.

13.0 Other Administrative Issues

During our investigation, a number of other issues were identified requiring attention or improvements.

13.1 SUNDRY ACCOUNTS RECEIVABLE

Findings

- Sundry accounts receivable (SAR) includes amounts due to the RM from organizations, individuals, and government agencies, other than taxes receivable.
- Poor administrative processes and lack of coordination has resulted in unreliable information in SAR. We also found that no monitoring or regular review of the SAR accounts is conducted by the RM's administration.
- For the year ended December 31, 2000, an audit adjustment to SAR of approximately $46,000 was made to write-off amounts that, according to the RM's external auditors, had been outstanding for a number of years.
- Council has not formally authorized this write-off by Resolution or By-Law. Although this issue came before Council in the fall of 2001, no Resolution or By-Law was adopted and no further action has been taken to date.
- We examined the SAR listing at December 31, 2001, which totalled $186,648. Included in this total are amounts outstanding from current staff and Council of approximately $1,650 dating back to 1996. Based on our review of the RM's Policy Manual and our interviews, we determined that the RM has no policy in place for providing such credit to staff and Councillors, nor for the timely collection of outstanding amounts owing to the RM.

Conclusions

- With no policy in place for SAR, including the providing of credit to Councillors and staff, the RM has an undue risk that a loss from uncollectable amounts could result.
- The authorization of the write-off of receivables is an important control process. By not requiring that all write-offs be authorized, Council may be exposed to an unnecessary risk of inappropriate adjustments to receivables.

13.2 TAX ASSETS RECEIVABLE

Findings

- The tax arrears list for the RM dated January 10, 2002 indicates total arrears of $1,104,573, as at December 31, 2001. This total includes 2001 arrears of $759,883 and 2000 and prior year arrears of $344,690.

- There were approximately 7,400 tax statements sent out by the RM in 2001, which were due by October 31, 2001. Of these statements, there were 983 accounts or 13% that had not paid their 2001 taxes by December 31, 2001.
- Of the 983 accounts with 2001 tax arrears, there were approximately 300 accounts with additional arrears from the year 2000 and prior. These 300 accounts amounted to $344,690.
- Of the 300 accounts, seven were found to have arrears in excess of $10,000. One of these accounts has arrears of $69,648, which has been outstanding since before 1989. The RM has not followed up or made any attempts to collect on this account.
- Based on our review of the tax collection system and our discussions with staff, we determined that the RM does not have any formal collection policies to attempt to recover overdue taxes on a timely basis. Second notices are not sent out. No contact is made by the RM until the following February or March when a Notice of Overdue Taxes is sent out to those property owners who have been in arrears for over one year. This means that the Notice of Overdue Taxes sent out by the RM in March of 2002 would be to those property owners who had arrears from the tax statements due October 31, 2000 and prior. Notice of Overdue Taxes would not be sent to those property owners who had arrears from tax statements, which were due October 31, 2001, despite the fact that these accounts were already almost five months in arrears.
- On the Notice of Overdue Taxes, the RM indicates that unless all previous arrears and penalties are paid by April 15, further action will be taken to register a Tax Sale Notice on the property. However, the RM has not held a successful tax sale during the term of the current Council.
- RM administration indicated to us that they are not overly concerned with the collection of tax assets receivable since they charge an amount of 1.25% per month on arrears.
- The RM has indicated to us in discussions that it intends to have a tax sale in the fall of 2002.

Conclusion

- The RM does not have appropriate procedures in place for monitoring and collecting outstanding tax assets receivable which increases the risk that the RM may not be able to collect monies to which it is entitled as receivables age.

13.3 SUPPLEMENTARY REPORTS

Findings

- Section 190(2) of The Municipal Act requires municipal auditors to submit a supplementary report which includes:

  - A statement of opinion as to whether the accounting procedures and systems of control employed by the municipality are adequate to preserve and protect its assets;
  - A statement of opinion as to whether the funds of the municipality have been disbursed only under an authority granted by an Act, or by a Resolution or By-Law passed or an authority granted under an Act;
  - A statement as to whether any irregularity or discrepancy came to the auditor's attention during the audit;
  - A statement as to any matters ...that the auditor considers the minister or council should be aware of; and
  - Any recommendation the auditor considers necessary or advisable regarding the proper performance of duties and the keeping of records and books of account by the chief administrative officer or other employees.

- Based on our review of the supplementary reports from 1997 to 2000, we noted that the RM has not addressed many of their external auditor's recommendations made in each year. Recommendations were often repeated, since the RM had failed to adequately resolve them.
- During the course of our investigation, we examined the management letter prepared by the RM's external auditors for the year ended December 31, 2001. A number of the observations and recommendations included in this management letter have been discussed previously in this report, while other items did not fall under the scope of our review. Regardless, in our opinion the observations and recommendations made by the external auditors are significant and require timely attention by Council and the RM's administration.
- In their supplementary audit report for the year ended December 31, 2001, the RM's external auditors reported that, *"... the municipality adopted a financial plan for 2001 which included a transfer from nominal surplus which exceeded the maximum amount provided for by regulation. The Minister's written approval for the excess transfer was not obtained as required under Subsection 164(5) of The Municipal Act".*

Conclusion

- The RM's administration and Council have not appropriately addressed the observations and recommendations included in supplementary reports provided by external auditors in each of the years reviewed.

13.4 COUNCILLOR COMPENSATION AND EXPENSES

Findings

- Schedule 10 of the Branch's prescribed annual financial statement form provides for the annual disclosure of Councillor compensation and expenses (see Chapter II, Appendix D).

- The RM disclosed Councillor compensation amounts on Schedule 10 of its annual audited financial statements for the years 1997 to 2001.
- Councillor expenses were not disclosed on Schedule 10 of the RM's annual audited financial statements for the years 1997, 1998, and 1999. The actual expenses incurred for these years were $72,400, $68,900 and $86,400.
- Councillor expenses have been disclosed on Schedule 10 of the RM's annual audited financial statements for the years 2000 and 2001.

Conclusion

- The reporting of Councillor expenses on the RM's annual audited financial statements from 1997 to 1999 was not properly disclosed.

14.0 Summary of Non-Compliance

Findings

- Figure 6 provides a summary of all matters where the RM was not in compliance with The Municipal Act and The Municipal Council Conflict of Interest Act over the period of 1997 to 2001, as discussed previously in this report.

FIGURE 6

Summary of Non-Compliance with Legislation

Description	Act*	Section(s)	1997	1998	1999	2000	2001
No by-law for grader lease	M225	174(1) and 176			X		
No by-law for fire equipment truck lease	M225	174(1) and 176			X		
No by-law for photocopier lease	M225	174(1) and 176				X	
No Ministerial approval for budgeted operating deficit	M225	164(3)	X	X	X	X	
No Ministerial approval for actual operating deficit	M225	165(1)		X	X	X	
Late filing of financial plan with the Minister	M225	162(4) and 162(5)			X	X	
Incomplete disclosure of the estimates of capital expenditures and the sources of funding for capital projects in financial plans	M225	166 and 167	X	X	X		
RM adopted by-law No. 7-1998 prior to obtaining Municipal Board approval	M225	176		X			
No Ministerial approval for the transfer from nominal surplus exceeding the maximum per regulation	M225	164(5)					X
No disclosure of the general nature of conflict of interest	M255	5(1)		X	X	X	X
No recording of the general nature of conflict of interest	M255	6(1)		X	X	X	X
No recording of disclosures in a central record	M255	6(2)(3)(4)		X	X	X	X
No central record available for inspection	M255	6(5)		X	X	X	X
No filing of annual disclosures by councillors	M255	9(1)			X	X	X
Clerk of RM did not notify councillors of failure to file	M255	9(2)			X	X	X

* M225 - The Municipal Act
* M255 - The Municipal Council Conflict of Interest Act

X - Indicates non-compliance by the RM of the section of the Act noted

- **Figure 7 provides a summary of matters where the RM's annual audited financial statements did not provide complete and accurate disclosure in accordance with the Branch-prescribed annual financial statement form. Some of these matters have been discussed previously in this report, while other matters were noted during our investigation and included in this summary.**

FIGURE 7

Summary of Non-Compliance with Branch-Prescribed Annual Financial Statement Form

Description	**Statement or Schedule**	**1997**	**1998**	**1999**	**2000**	**2001**
Disclosure of the source of general capital funds	Statement 13	1		2		
Disclosure of the application of general capital funds	Statement 13	1		2		
Disclosure of capital assets by category (Buildings, Machinery and Equipment, Land, and Other)	Statement 3	3	3	3	3	X
Disclosure of Councillor expenses	Schedule 10	X	X	X		
Disclosure of the purpose of debenture indebtedness	Schedule 7	X	X	X	X	
Disclosure of school levies	Schedules 1 and 2	X	X	X	X	
Note disclosure did not reference policy of recording capital assets financed by debentures at a value equal to the debenture debt	Notes to Financial Statements		X	X	X	
Incorrect section of The Municipal Act referenced concerning the issuance of the supplementary report	Auditor's Report	X	X	X	X	

1 - A revised Statement 13 was issued for 1997 that disclosed the source and application of general capital funds in the year, however this revised statement was not provided to the RM and, as a result, was not available to the public.

2 - The source and application of general capital funds were netted on Statement 13 for 1999.

3 - The RM's capital asset general ledger accounts did not agree to the capital asset categories disclosed on the RM's annual audited financial statements.

X - indicates the RM's audited financial statements did not disclose the matter noted.

Conclusions

- In the period between 1997 and 2001, the RM was in non-compliance with numerous sections of The Municipal Act and The Municipal Council Conflict of Interest Act.
- We believe that the failure of a public organization to comply with its enabling legislation is a serious matter. As noted in this section, and throughout the report, the RM has failed to comply with The Municipal Act and The Municipal Council Conflict of Interest Act on numerous occasions. In certain cases, as noted earlier in the report, this non-compliance exposed the citizens of the RM to the risk that the RM's debt may have been unnecessarily incurred. In addition, the RM made it unduly difficult for citizens to understand the RM's business affairs and the true cost of certain capital projects.
- In the period between 1997 and 2000, the RM's annual audited financial statements contained numerous exceptions from the Branch-prescribed annual financial statement form. In 2001, the RM's annual audited financial statements have improved.

15.0 Recommendations

RECOMMENDATIONS FOR THE RM

Compliance with Legislation

- That the RM operate in compliance with The Municipal Act and The Municipal Council Conflict of Interest Act. To assist in this regard, the RM could develop the following:
  - A summary of the mandatory and discretionary provisions in the relevant legislation to be used as a guide and reference for the future activities of the RM; and
  - A summary of activities where municipalities are required to act under by-laws as per The Municipal Act, to be used as a guide and reference by Council and the RM's administration.

Financial Accountability and Transparency

- That the RM significantly improve its overall monthly and annual financial budgeting, accounting, reporting, and disclosure practices.
- That the RM significantly improve its capital budgeting, contracting and project management practices.
- That the RM respond to the recommendations of their external auditors, as presented in their supplementary report, on a timely basis.
- That the RM develop policies and procedures for the recording of capital assets, undertake a detailed review of the capital asset general ledger accounts, and establish capital asset listings to document the assets currently held by the RM.
- That the RM develop and implement a formal policy over expenditure authority, including delegation of authority.
- That the RM establish a tendering policy that is applied consistently for significant purchases of goods and services.
- That, in the future, Council formally approve all tipping fee rates at the regional landfill facility prior to users being charged the rates.
- That the RM develop and implement a formal policy and procedures over sundry accounts receivable identifying conditions whereby credit will or will not be provided to staff and/or councillors and addressing monitoring and collection procedures.
- That the RM develop and implement a formal policy and procedures over the monitoring and timely collection of outstanding tax assets receivable.

Governance

- That the Council significantly improve its governance practices in order to ensure effective management and oversight of the RM.

Comments from Rural Municipality

The Office of the Auditor General encountered difficulties in obtaining a concise response to the recommendations representative of the views of all Councillors of the RM.

RECOMMENDATION FOR THE DEPARTMENT OF OF INTERGOVERNMENTAL AFFAIRS

- That the Department review the results of this investigation with a view to considering its role in ensuring that municipalities follow proper governance practices, including compliance with legislation, and financial accountability and transparency.

Comments from Department

The Department supports the Auditor General's recommendation that it consider its role in reviewing municipalities' governance practices and compliance with provincial legislation.

The Department's mission is to facilitate improvements in the economic, social and environmental well being of Manitoba communities and citizens. The Department works in partnership with local governments and others to achieve these goals.

The new Municipal Act, which was developed with broad public input, is intended to enhance efficient and effective local government, to promote strong viable communities. One of the ways this is accomplished is by giving councils greater autonomy and independence to make the decisions they think will best meet the needs of their communities. The Act balances this autonomy and independence by imposing obligations of increased public accountability and responsibility on councils and its members. By providing for enhanced public accountability, the intent was that the public would be better able to review and consider local government actions. The Act recognizes that local councils are responsible to the local electorate for the decisions they make. The legislation also anticipates that as a responsible level of government, municipalities will comply with their legislative obligations. The Department considers failure to comply with The Municipal Act to be a serious matter.

The Department notes that in its experience most councils take very seriously the public trust bestowed on them, and strive to carry out their responsibilities and exercise their authority within the legislated requirements. Problems of the nature and of the extent described in this report have not been raised about other municipalities. Where problems have been identified, the Department has generally been successful in working with the municipality to resolve them. However, as this report details, the RM of St. Clements' operations appear to have failed to meet *expected standards in terms of the processes followed, and the lack of proper process may have affected the opportunity for the public to hold Council accountable for decisions with financial implications. The Department's efforts to address the situation has resulted in some improvements in recent years, as this report has indicated. The Department will want to consider what further steps it can take in this type of very unusual circumstance where the elected council has such difficulty in governance processes. Nevertheless, the Department, the RM of St.Clements, citizens and other municipalities can all learn from this report, and consider future actions to enhance the public accountability of local governments for their decisions.*

RECOMMENDATION FOR THE MUNICIPAL BOARD

- That the Municipal Board review the results of this investigation with a view to considering its role as the final approving authority of municipality borrowing by-laws, in particular, with respect to:
  - the quality of the information provided by the municipality seeking approval of a borrowing by-law; and
  - its responsibility in circumstances where the municipality seeking approval of a borrowing by-law has already incurred the expenditure contemplated by that borrowing by-law.

Comments from Municipal Board

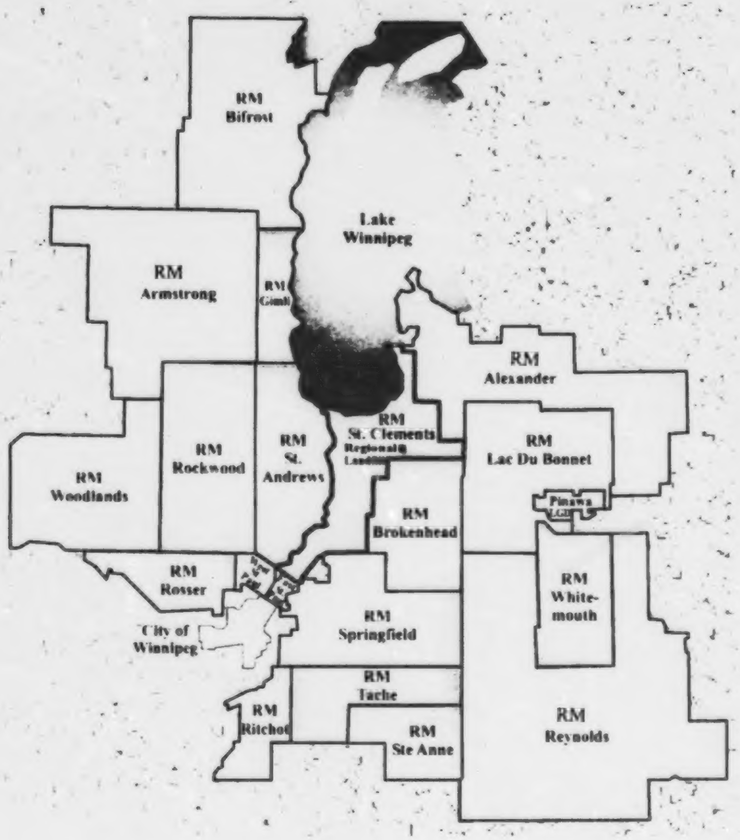
The Municipal Board is considering the "Recommendation for the Municipal Board" within the context of its statutory obligations and mandate.

LEARNINGS FOR OTHER MUNICIPALITIES

- That all municipalities review their experiences over the last few years under the 1997 amended Municipal Act and The Municipal Council Conflict of Interest Act, and consider whether they are operating fully in compliance and meeting the objectives of these Acts.

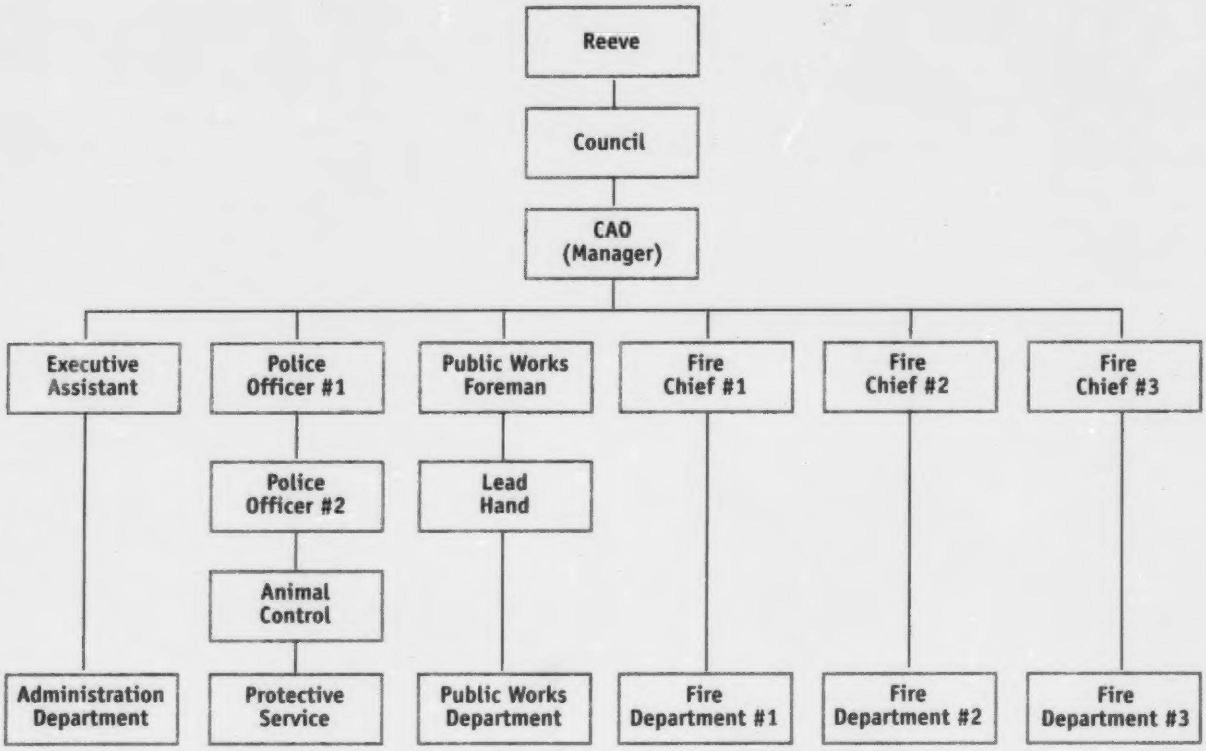
LOCATION OF RM OF ST. CLEMENTS

Appendix A


RM Bifrost
Lake Winnipeg
RM Armstrong
RM Gimli
RM Alexander
RM St. Clements
Regional Landfill
RM Lac Du Bonnet
RM Woodlands
RM Rockwood
RM St. Andrews
Pinawa LGD
RM Brokenhead
RM Rosser
RM White-mouth
RM Springfield
City of Winnipeg
RM Tache
RM Ritchot
RM Ste Anne
RM Reynolds

Appendix B

RURAL MUNICIPALITY OF ST. CLEMENTS ORGANIZATIONAL STRUCTURE


Reeve
Council
CAO (Manager)
Executive Assistant
Police Officer #1
Public Works Foreman
Fire Chief #1
Fire Chief #2
Fire Chief #3
Police Officer #2
Lead Hand
Animal Control
Administration Department
Protective Service
Public Works Department
Fire Department #1
Fire Department #2
Fire Department #3

REVIEW OF MUNICIPAL FINANCIAL ACCOUNTING AND REPORTING STANDARDS IN MANITOBA

Chapter II

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1.0 Chapter Summary

Municipalities in Manitoba receive substantial monies from the Province and citizens. To ensure that municipalities are held accountable for the funds they receive, citizens need to receive appropriate financial reporting and be confident that objective and recognized accounting standards are used. Only with an understandable and accurate picture of a municipality's financial position and operations can both the Province and citizens obtain assurance that public monies are being used in an appropriate and transparent manner.

The questions researched in this review were concluded as follows:

- **What legislation governs municipal accounting and what are the required municipal accounting standards in Manitoba?**
    - As per Section 183(1) of The Municipal Act, Manitoba municipalities are required to follow PSAB recommendations in their annual financial statements. As Ministers of the Department of Intergovernmental Affairs have made no significant modifications to municipal accounting standards, we continue to believe that The Municipal Act requires PSAB recommendations to be used by all municipalities.
- **Are PSAB recommendations being applied in Manitoba?**
    - Annual municipal financial statements in Manitoba, as presented in the prescribed form currently being used, are not PSAB compliant. As such, the financial statements fail to serve their primary purpose as an understandable accountability document for the citizens of municipalities.
    - The prescribed form results in financial statements that are difficult for users to comprehend.
- **Is compliance with PSAB recommendations required by legislation across Canada and are CICA accounting recommendations being applied by other Provinces?**
    - There is increased compliance with PSAB recommendations in parts of Canada leading to more transparent and consistently prepared financial statements in those provinces. Processes were adopted in Alberta and British Columbia and are underway in Ontario and Saskatchewan to bring municipalities in those provinces into compliance with the PSAB recommendations. Manitoba municipalities are not as close to PSAB compliance as are some municipalities in those provinces.
- **What is the Department of Intergovernmental Affairs doing to ensure that municipalities are in compliance with Section 183(1) of The Municipal Act?**
    - By continuing to require municipalities to submit their financial statements in the prescribed form the Department has not promoted adoption of PSAB recommendations as highlighted in Section 183(1) of The Municipal Act.

- The delay of the Department to prescribe PSAB recommendations has contributed to financial reporting that is neither clearly understandable nor comparable. This may result in a lack of transparency in financial information to council members, municipal administrators, and citizens, and may hamper effective decision-making on the allocation of municipal resources.

The preparation of financial statements in accordance with generally accepted accounting principles is fundamental. These principles are designed to provide for financial reporting that is readily understandable and consistent. They are intended to support transparency and accountability. We believe that citizens are not receiving the quality of financial reporting from their municipal governments to which they are entitled, and their ability to hold Council accountable is thereby impaired.

Recommendation for the Department

As a result of this review, the following recommendation is provided:

- *That the Department of Intergovernmental Affairs consider what role it can undertake in encouraging financial statements of municipalities to be prepared in accordance with the PSAB recommendations of the Canadian Institute of Chartered Accountants, which in turn would have municipalities preparing annual audited financial statements in compliance with Section 183(1) of The Municipal Act.*
    - *This could involve discussions with the Institute of Chartered Accountants of Manitoba (ICAM), the Association of Manitoba Municipalities (AMM), and the Manitoba Municipal Administrators' Association (MMAA) to develop a time table for adopting generally accepted accounting principles over a short period of time; eliminating the prescribed form in favour of a general requirement for financial statements to be prepared in accordance with PSAB; invitation of PSAB representatives to conduct training in Manitoba; discussions with the ICAM to inform the professions of changes; and having municipalities discuss with their external auditors a timetable for adopting generally accepted accounting principles as soon as possible so that they can move into compliance with The Municipal Act.*
    - *The Department could prescribe a standard audit opinion that states that financial statements are "in accordance with recommendations made by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants".*

2.0 Introduction

In performing this review, we explored the following questions:

1. What legislation governs municipal accounting and what are the required municipal accounting standards in Manitoba?
2. Are PSAB recommendations being applied in Manitoba?
3. Is compliance with PSAB recommendations required by legislation across Canada and are the CICA accounting recommendations being applied by other Provinces?
4. What is the Department of Intergovernmental Affairs doing to ensure that municipalities are in compliance with Section 183(1) of The Municipal Act?

2.1 SCOPE

This review was conducted from September 2001 to May 2002. Our work consisted of such examinations, documentation review and procedures that we deemed necessary, including the following:

- Review of the Canadian Institute of Chartered Accountants (CICA)/Public Sector Accounting Handbook recommendations;
- Interviews with a representative from the CICA, who also provided comments on our report;
- Review of The Municipal Act Procedures Manual published by the Department of Intergovernmental Affairs' Municipal Finance and Advisory Services Branch (the Branch);
- Review of The Municipal Act and The City of Winnipeg Act;
- Review of sections of Provincial Acts relating to financial reporting for local governments for all provinces in Canada with respect to financial accounting standards (Appendix B);
- Analysis of financial statements for the years ended December 31, 1996 and December 31, 2000 from selected municipalities in Manitoba.

  [illegible] reviewed the financial statements of 12 local governments in [illegible]itoba. Our sample included 11 municipalities that were mainly from areas located in the capital region (the area immediately surrounding the City of Winnipeg). We also included the City of Brandon in our sample. As a result, our sample included municipalities representing 28% of the total Manitoba population, and receiving 26% of the total operating fund revenues for Manitoba municipalities, as well as 30% of the total taxable assessment and grants in lieu of taxes of municipalities in Manitoba;
- Analysis of financial statements for the year ended December 31, 2000, for 12 local governments from selected provinces across Canada.

A glossary of terms used throughout this report is located in Appendix A.

  - Our sample included six local governments in Alberta, five local governments in Ontario and one local government in Saskatchewan. These selections were consistent with those included in the PSAB report titled, *Local Government Financial Reporting 2001* (contains 1999 data). We updated the data to the year 2000;

- Interviews with staff of the Branch of the Department of Intergovernmental Affairs; and
- Discussions with a representative from a private sector auditing firm experienced in conducting municipal audits, who also provided comments on our report.

3.0 Background

3.1 MUNICIPAL FINANCIAL REPORTING

All municipalities in Manitoba, except for the City of Winnipeg, are formed and dissolved by the Lieutenant Governor in Council, or the Minister, under The Municipal Act. The City of Winnipeg is governed by specific legislation, The City of Winnipeg Act. The Minister of Intergovernmental Affairs has statutory responsibility for both Acts.

The Municipal Act in Manitoba was substantially revised in 1997 by the current legislation in place. The development of this new legislation began in 1993 with a review panel formed to develop a legislative framework, in response to municipalities' needs. This resulted in legislation that grants municipalities greater authority and flexibility, more local autonomy and less provincial supervision, and was intended to allow them to operate more efficiently. The panel consisted of five members with experience in the municipal community. Twenty-six public meetings were held in seven locations across the Province between 1993 and 1995, with over 600 attendees presenting numerous oral and written submissions. This consultation process was concluded in June 1995, and the new Act was enacted effective January 1, 1997.

The new Municipal Act provides a statutory framework for increased public accountability in a number of ways, including:

- the requirement for a procedural by-law;
- limitations on closed meetings;
- requirements for an annual financial plan and public meetings;
- increased access to municipal documents;
- specific reporting of payments to or on behalf of Councillors;
- making Councillors personally liable for spending municipal monies without proper authority; and
- giving citizens the right to ask the court to enforce the Act.

Under The Municipal Act, municipalities must submit certain information, including annual audited financial statements, to the Minister of Intergovernmental Affairs. A municipality's financial statement is a measure of Council's accountability to its citizens, and provides citizens with the opportunity to compare actual results (financial statements) with the annual financial plan (budget) adopted by Municipal Council.

As required under The Municipal Act the annual financial statements must be audited by an external auditor who must meet certain professional qualifications. Although an external auditor attests to the financial statements, the statements are the responsibility of management. This responsibility is stated in the first paragraph of the standard audit report. This responsibility is further emphasized in the statement of management responsibility, which is generally included in an annual report before the auditor's report and the financial statements. Samples of each can be found in Appendix C.

3.2 CURRENT PRINCIPLES AND RECENT CHANGES IN MUNICIPAL LEGISLATION

Most Canadian provinces have enacted new municipal legislation in the last ten years.[1] A guiding principle of much of this new legislation is the recognition of local governments as a mature, responsible and accountable level of government, and that the democratically elected council is accountable and responsible to their electorate. By this new legislation, the provinces have typically provided for greater local autonomy of municipal governments, and reduced the supervisory role of the province over the locally elected governments. This increased autonomy is in contrast to the former prescriptive legislation, where municipalities were heavily regulated and supervised by the province, which impeded the ability of local governments to respond to local needs effectively and efficiently.

However, in recognition of local government's responsibility to its electorate, and to balance the increased local autonomy, many provinces, including Manitoba, also increased the level of public accountability by the local governments. The new legislation typically provides for such things as:

- a procedural by-law to be enacted, setting regular council meetings with full public notice of such meetings;
- greater restrictions on when council meetings may be closed to the public;
- public hearings for a number of matters, including the annual financial plan; and
- increased public access to municipal information and documents.[2]

In addition to increased autonomy, this new municipal legislation generally is also a substantial departure from the predecessor legislation in a number of other significant areas. For example, the adoption of new local government concepts as "natural person powers" and "broad spheres of jurisdiction" both provide greater powers and authorities.

3.3 PROVINCIAL FINANCIAL ASSISTANCE TO MUNICIPALITIES

Municipalities receive financial assistance from the Province in the form of conditional and unconditional grants for operating assistance and capital assistance, as well as grants in lieu of taxes and recoverable amounts for both Rural Economic Development Initiatives and Capital Initiatives. The financial assistance provided by the Province for the year ended March 31, 2001 was approximately $92 million (see Figure 1), including $13 million provided as Grants In Lieu Of Taxes (see Figure 2).

---

[1] Alberta in 1994; British Columbia in 1996, with a further legislative review currently underway; Manitoba in 1996 with The Municipal Act, and in 2002 with The City of Winnipeg Charter Act; Nova Scotia in 1998; the Yukon Territory in 1998; Newfoundland in 1999; Ontario in 2001; and Saskatchewan, currently under review.

[2] The Municipal Act (Manitoba), sections 149, 152, 162(2) and 263.

FIGURE 1

Financial Assistance to Manitoba Municipalities

	2000/2001	1999/2000
(A) Financial Assistance to the City of Winnipeg		
(1) Operating Assistance:		
Unconditional Current Programs Grant	$19,887.5	$19,587.5
Unconditional Transit Operating Grant	16,339.0	16,339.0
General Support Grant	7,868.1	8,344.4
Dutch Elm Disease Control Program Grant	900.0	900.0
Unconditional Grant - Urban Community Development	7,458.7	7,551.4
Less: Adjustment to reflect program transfers from the City of Winnipeg	(23,500.0)	(18,875.0)
(2) Capital Assistance:		
Capital Financial Assistance to the City of Winnipeg	21,101.1	23,600.0
Red River Floodway Control Structure	-	500.0
Sub-total - Winnipeg	**$50,054.4**	**$57,947.3**
(B) Financial Assistance to Other Municipalities		
(1) Operating Assistance:		
Transit Grants	$ 1,541.2	$ 1,484.1
General Support Grants	989.2	1,004.9
Unconditional Grants - Rural Community Development	6,160.6	6,184.9
(2) Capital Assistance:		
Transit Bus Purchases	108.0	120.0
Sewer and Water Programs	12,000.0	13,000.0
Conservation Districts	2,906.0	2,570.0
Infrastructure Development	4,942.1	4,500.0
Sub-total - Other Municipalities	**$28,647.1**	**$28,863.9**
(C) Grants to Municipalities in Lieu of Taxes		
(1) Grants (see details in Figure 2)	$13,045.4	$13,111.7
Sub-total - Grants in Lieu of Taxes	**$13,045.4**	**$13,111.7**
Total Financial Assistance to Municipalities	**$91,746.9**	**$99,922.9**

Source: 2000/2001 Annual Report for the Department of Intergovernmental Affairs.

FIGURE 2

Grants in Lieu of Taxes

	2000/2001	1999/2000
Rural Municipalities	$ 1,556.8	$ 1,551.1
Villages	30.9	31.2
Towns	933.5	926.7
Local Government Districts	12.7	12.7
Cities (including Winnipeg)	10,395.5	10,470.4
Northern Affairs	133.7	126.9
Agricultural Refunds	(17.7)	(7.3)
Total Grants in Lieu of Taxes	**$13,045.4**	**$13,111.7**

Source: 2000/2001 Annual Report for the Department of Intergovernmental Affairs.

Under The Provincial Municipal Tax Sharing Act, municipalities are allocated tax revenue realized by the Province under federal income tax legislation. The tax sharing formula includes 2.2 points of a percentage of the personal income tax payable under federal income tax legislation, as well as 1.0% of the taxable income of corporations earned in Manitoba (net of capital gains refunds). This funding is paid out to the municipalities on a per capita basis. The total funding under The Provincial Municipal Tax Sharing Act was approximately $78 million for the year ending March 31, 2001. Of this amount, the City of Winnipeg received approximately $45 million and the remaining 200 local governments received a total of $33 million.

FIGURE 3

Provincial Municipal Tax Sharing Payments

	2000/2001	1999/2000
Rural Municipalities	$ 7,940.3	$ 7,189.9
Villages	644.9	697.9
Towns	9,974.6	8,981.7
Local Government Districts	208.3	189.9
Cities (including Winnipeg)	57,255.6	52,088.4
Northern Affairs	1,780.5	1,623.5
Total Provincial Municipal Tax Sharing Payments	**$77,804.2**	**$70,771.3**

Source: 2000/2001 Annual Report for the Department of Intergovernmental Affairs.

4.0 What Legislation Governs Municipal Accounting and What are the Required Municipal Accounting Standards in Manitoba?

Findings

- Municipalities in Manitoba (except for the City of Winnipeg) are formed and dissolved under the following sections of The Municipal Act:
    - Sections 30(1) and 64(1): the Lieutenant Governor in Council may form a municipality;
    - Sections 31(1) and 67(1): the Lieutenant Governor in Council may dissolve a municipality; and
    - Section 7: the Minister may by regulation designate a body as a local authority, and establish principles, standards or criteria to be taken into account in considering the formation, dissolution, change of name or amalgamation of municipalities or the annexation of land from municipalities under this Division.

- As the statutory responsibilities for The Municipal Act rests with the Minister of Intergovernmental Affairs, the administration of this Act is the responsibility of the Department of Intergovernmental Affairs (Department).
- With respect to the accounting standards for annual municipal financial statements, The Municipal Act states under Section 183(1):

  > *"A municipality must in each year prepare annual financial statements of the municipality for the immediately preceding year in accordance with the generally accepted accounting principles for municipal governments recommended from time to time by the Canadian Institute of Chartered Accountants and any modification of those principles or any supplementary accounting standards or principles approved by the Minister."*

- PSAB, created by the CICA in 1981, determined that inconsistencies in federal and provincial government accounting and financial reporting principles and standards led to confusion, a lack of understanding, and an inability to compare results. Recommendations for more transparent and consistent accounting and financial reporting for these levels of government followed. PSAB found similar problems in local government accounting and financial reporting. In 1989 it began its local government initiative, with the goal of developing recommendations for standards of municipal accounting and financial reporting that would improve the understanding, completeness and comparability of municipal financial statements and the financial information available to local decision-makers and the public. In 1996, PSAB began focussing its efforts on local government compliance.
- The Introduction section of the Public Sector Accounting Handbook Section .01 indicates that, *"The Board of Directors of The Canadian Institute of Chartered Accountants (CICA) has authorized the Public Sector Accounting Board (PSAB) to issue Recommendations and guidance with respect to matters of accounting in the public sector. PSAB issues such Recommendations and guidance to serve the public interest by strengthening accountability in the public sector through developing, recommending and gaining acceptance of accounting and financial reporting standards of good practice".* Further, Section .03 states, *"For purposes of applying PSAB's Recommendations, "public sector" refers to federal, provincial, territorial and local governments, government organizations, government partnerships, and school boards".* Over the last 13 years, PSAB has introduced a number of recommendations for local government accounting which are intended to provide financial reporting that is readily understandable and consistent. These recommendations are found in the PSAB Accounting Handbook.
- PSAB recommendations are recognized by many organizations internationally as a basis for measuring excellence in municipal accounting. For example, Government Finance Officers Association of United States and Canada (GFOA), offers an award, the Canadian Award for Financial Reporting, to recognize excellence in government financial

statement presentation. The checklist of what it considers as required for excellent government reporting includes references to PSAB recommendations. PSAB is required for use by the GFOA.

- Section 183(1) of The Municipal Act allows the Minister to make modifications to accounting principles or supplementary accounting standards. Our initial interviews with senior Branch staff indicated that no modifications were made by the Minister since the inception of the new Act.
- Subsequent to our initial inquiries, we obtained a copy of correspondence dated January 16, 1998 sent by the Branch to municipal auditors. This correspondence indicated that the prescribed forms (see Appendix D for a copy of the form), in use at that time, which further incorporated two new changes in accounting and reporting principles, were to be used for the preparation of the 1997 financial statements. The Branch believes that these changes represent a modification under Section 183(1) of The Municipal Act and, as a result of this modification, PSAB recommendations do not have to be applied in Manitoba at this time.
- As well, in the same letter noted above, the Branch indicated that they would be developing new prescribed forms for 1998, which would become the reporting standards for future audits. The reporting standards were to be designed to meet national accounting and reporting standards for local governments as recommended by PSAB, consistent with The Municipal Act. This development did not take place, and as such the prescribed forms in use for 1998 and subsequent reporting years remain non-compliant with PSAB.
- In October 1998, the Branch coordinated a workshop with the CICA and certain municipal CAOs to consider steps to implement the PSAB recommendations in Manitoba. As per the Department, at that workshop, it became clear that a consistent position on accounting for and reporting of a local government's tangible capital assets had not been resolved by PSAB, and the CICA representative agreed that this aspect of the standards required further study. The Manitoba partners understood this further study would be undertaken shortly and, to avoid confusion by adopting a new system piece meal without all components being resolved, decided to await the resolution of this issue, so that a full and complete transition to PSAB could be made on all issues.
- In March 1999, the Branch, in conjunction with the University of Manitoba, the MMAA, and the AMM, coordinated a seminar by PSAB representatives to review PSAB recommendations. This seminar also provided an opportunity for a broader discussion in moving forward to adopting PSAB recommendations for Manitoba municipalities.
- In July 1999, a committee, comprised of representatives of the Department and the CAOs of several larger municipalities, met to discuss the development and implementation process for a new financial information return for Manitoba municipalities that would reflect PSAB recommendations. However, due to competing demands on the time and

resources of both the Department and the CAOs, the committee was unable to achieve significant progress. While one of the meeting outcomes was the development of a tentative timeline, that turned out to be unrealistic, given the complexity of the matter, resources and other commitments.

- While the Department supports the implementation of PSAB recommendations, it is of the opinion that PSAB compliance is not yet required under the public accountability framework set by The Municipal Act. Section 183(1) was drafted with the knowledge that PSAB recommendations were being developed, but because those principles were still in development, that section specifically permits the Minister to modify those principles. The Department says the Minister did make modifications in prescribing the form to be used. The modifications were made because:
  - the number of other significant changes under the new Act that required implementation on a greater priority basis;
  - the new requirement for an annual financial plan and the related public meeting were providing an enhancement of the public's access to financial information; and
  - PSAB recommendations were not fully resolved, and at that time, Alberta was the only province to have moved to adopting PSAB for its municipalities.
- As of June 2002, the Branch continues to require municipalities to file financial information returns in the prescribed form, which, in our opinion, is not PSAB compliant, but which the Department considers to be compliant with The Municipal Act.
- Comparison of the current prescribed form with the form used prior to the introduction of the new Act confirmed that the format of the currently used form has not changed significantly since the new Municipal Act was introduced.

Conclusion

- As per Section 183(1) of The Municipal Act, Manitoba municipalities are required to follow PSAB recommendations in their annual financial statements. As Ministers of the Department of Intergovernmental Affairs have made no significant modifications to municipal accounting standards, we continue to believe that The Municipal Act requires PSAB recommendations to be used by all municipalities.

5.0 Are PSAB Recommendations Being Applied in Manitoba?

In order to determine what municipal accounting standards are actually being used in Manitoba's municipal financial statements, we examined the financial statements, the audit report, and accounting policies of 12 local governments for the year ended December 31, 2000. These were then compared to PSAB recommendations.

Findings

- All 12 auditor's reports reviewed had unqualified audit opinions. However, no audit opinion indicated Manitoba municipal financial statements are in accordance with PSAB recommendations. The audit opinions stated:
  - "in accordance with accounting principles generally accepted for municipal corporations in Manitoba...".
- Discussions with Branch staff highlighted that they did not have a definition of what "accounting principles generally accepted for municipal corporations in Manitoba" were, nor did they define them in any of their documents provided to municipalities or municipal auditors. However, the Branch staff also reported that municipal auditors had not made any inquiries of them for such a definition.
- Branch staff described accounting standards used in Manitoba as the "modified accrual basis of fund accounting", which they considered to be generally consistent with PSAB recommendations except in the areas of inventories, long term debt, capital assets and consolidation.
- Manitoba municipalities are required, under The Municipal Act, to submit their annual financial statements to the Minister of Intergovernmental Affairs in a prescribed form. As per the Branch this form was developed some 40 years ago in consultation with the Federal Government and other provinces, and has been revised from time to time.
- The prescribed form is not PSAB compliant. As a result, all 200 local governments in Manitoba governed by The Municipal Act submit their annual financial statements in a format not compliant with PSAB recommendations.
- A review of municipal financial statements in Manitoba confirmed that Manitoba is generally non-complaint with PSAB recommendations in a number of areas, as summarized in Figure 4 and detailed in Appendix E. The most noticeable differences are in the following areas:
  - The prescribed form does not present combined funds or consolidated financial statements.
  - The prescribed form does not provide for the consolidation of funds within a municipality (i.e., Operating Fund, General Reserve Fund, General Capital Fund, Utility Operating Fund, Utility Reserve Fund,

FIGURE 4

Manitoba Status with PSAB Requirements

PSAB Section	Title	Purpose of Section	Compliance Status in Manitoba	Impact of Non-Compliance	PSAB Provinces
1300	Government Reporting Entity	Financial statements should provide an accounting of the full nature and extent of the financial affairs and resources for which the municipality is responsible.	Non-compliant with respect to the presentation of the consolidated operations of the municipality	The full nature and extent of the financial affairs and resources of the municipality are not clearly disclosed.	Transitioning to compliance
1700	Objectives of Financial Statements Local Governments	Identifies primary users and their information needs; sets objectives of local government financial statements based on those needs; sets out criteria for determining the reporting entity; and recommends general reporting principles for the disclosure of information in financial statements.	Non-compliant in 17 subsections	The prescribed form used for financial statement presentation was developed by the Branch. The form is non-compliant with PSAB. The financial information appears directed to the Branch, and is not in a format that would facilitate understanding and use by ratepayers and councils.	Compliant
1800	General Standards of Financial Statement Presentation Local Governments	Establishes a framework of generally accepted accounting principles and financial reporting standards appropriate for local government. Recommends general standards on financial statements that local governments should prepare; the information that should be reported in those statements; and when to record revenues and expenditures.	Non-compliant in 9 subsections	Municipal financial statements do not consolidate their financial position/financial activities nor statement of changes in financial position. As such, the financial statements do not demonstrate a clear picture of the financial position and the results of operations of Manitoba municipalities. Key areas of non-compliance are (.08) funds are not being combined and inter-fund balances and transactions are not eliminated; (.33) the change in net debt is not being disclosed; (.36) the combined change in the balances of funds is not being disclosed; and (.41) the basis of accounting for expenditures is not applied.	Compliant
3040	Portfolio Investments	Recommends how to account for and report portfolio investments in government financial statements.	Non-compliant in 1 subsection	Municipal financial statements do not separately disclose information on income from portfolio investments, resulting in an unclear picture of income earned on a municipality's investments.	Compliant
3230	Long-Term Debt	Recommends how to present and disclose long-term debt in government financial statements.	Non-compliant in 4 subsections	Municipal financial statements do not disclose transparent information on long-term debt, thus ratepayers (and possibly council) may not be aware of the long-term debt obligations of the municipality.	Compliant
3270	Solid Waste Landfill Closure and Post-closure Liability	Recommends how to account for and report the liability for closure and post-closure care of a solid waste landfill site. The section defines activities to be included, recommends when to recognize and how to measure the closure and post-closure care liability, and provides related financial statement presentation and disclosure requirements.	Non-compliant in 2 subsections	Municipal financial statements do not clearly disclose information on Solid Waste Landfill closure/post-closure liabilities. Thus, users may not be fully aware of the long-term responsibilities of a municipality.	Non-compliant in 2 subsections
3410	Government Transfers	Recommends how to account for and report government transfers in the financial statements of governments. Government transfers are one method used by governments to meet their objectives and carry out their programs.	Non-compliant in 1 subsection	Transfers made to individuals, organizations or other governments to meet government objectives are not transparently disclosed, thus users may not be fully aware of the actions taken by management and council to meet the municipality's goals.	Non-compliant in 1 subsection

  Utility Capital Fund, and Trust Fund). This makes it difficult for a general user to understand the overall financial position of each of Manitoba's municipalities. The non-consolidation of statements is not complaint with PSAB recommendation 1800.08, which recommends combining individual funds and eliminating any inter-fund balances and transactions.

  - The form does not provide for the presentation of the previous year's financial results on a comparative basis.
  - Statement 9 provides for the double counting of revenue by adding back transfers, which are representative of revenue earned in a prior period. Also, the method used to disclose surplus appropriations and transfers is not in compliance with PSAB.
  - Statement 11 has the same issues with respect to transfers and surplus appropriations.

- Our review of the sample of the municipal financial statements noted that, due to the prescribed form, the statements were unnecessarily complex.
- Based on our review of the statements for 12 local governments in Manitoba, we also noted non-compliance with a number of other PSAB recommendations that varied among the statements.
- Even though certain sections of the prescribed form would not apply to every municipality, all aspects of the form must be submitted to the Minister. There are considerable blank sections within each municipality's financial statements, which in some cases are not clearly marked "not applicable".

Conclusions

- Annual municipal financial statements in Manitoba, as presented in the prescribed form currently being used, are not PSAB compliant. As such, the financial statements fail to serve their primary purpose as an understandable accountability document for the citizens of municipalities.
- The prescribed form results in financial statements that are difficult for users to comprehend. The format adds complexity, and the substantial number of schedules that may not be applicable and returned blank may detract from a clear understanding of the municipality's financial position and results of operations. The blank schedules may also lead some to perceive that information is missing, when the schedule is simply not applicable to that municipality.

6.0 Is Compliance with PSAB Recommendations Required by Legislation Across Canada and are CICA Accounting Recommendations Being Applied by Other Provinces?

We compared Manitoba's Municipal Act with similar legislation in other Canadian provinces. We focused primarily on sections related to municipal accounting, to determine if PSAB recommendations were referenced as a requirement for GAAP in other Canadian legislation. (Appendix B).

We then compared Manitoba's PSAB compliance with the level of compliance in other jurisdictions whose legislation also requires PSAB recommendations. We reviewed 12 cross-jurisdictional local government annual reports for the year ended December 31, 2000, and compared them with the sample of 12 municipal financial statements referenced in Section 4.0. The results from this comparison and where Manitoba is in significant non-compliance with PSAB recommendations, are summarized in Figure 4 and detailed in Appendix E which also shows other province's status on these same recommendations.

Findings

- British Columbia, Alberta, and Ontario require PSAB recommendations to be used in municipal financial statements. The PSAB recommendations for municipalities were adopted by Alberta in 1994, British Columbia in 1999, and Ontario in 2000. Effective January 1, 2002, Saskatchewan required the use of PSAB recommendations in their municipal financial statements. Each province provided for a phase-in period, typically of up to two years. Thus, Ontario municipalities are only now being reviewed for compliance in 2001, and Saskatchewan will begin its review next year.
- For the provinces that require PSAB recommendations to be used in municipal financial statements, there are no penalty provisions to enforce compliance. Alberta, British Columbia and Ontario all self-report high compliance levels. This compliance was confirmed from an independent review of a number of larger, well-resourced municipalities.
- Quebec, Nova Scotia, New Brunswick, Prince Edward Island and Newfoundland do not specify the use of PSAB recommendations.
- While legislation varies between provinces, most include a section allowing the Minister to approve or modify accounting policies.
- In examining the 12 cross-jurisdictional annual reports, we focused on two separate components: the auditor's report and the financial statements.
- Our comparison identified that Manitoba is not as compliant with PSAB recommendations as the comparison jurisdictional sample, as itemized in Figure 4 and detailed in Appendix E.

- In the cross-jurisdictional sample reports reviewed, all 12 auditor's reports stated unqualified audit opinions. However, we found inconsistency in the wording of the auditor's opinions, with respect to PSAB compliance. The first opinion type, expressed below, does not state compliance with PSAB recommendations, as opposed to the latter three opinion types. Wording noted is as follows:
    - "in accordance with Canadian generally accepted accounting principles" (5 of 12).
    - "in accordance with accounting principles for municipal governments established by the Canadian Institute of Chartered Accountants" (5 of 12).
    - "in accordance with generally accepted accounting principles for the public sector recommended by the Canadian Institute of Chartered Accountants" (1 of 12).
    - "in accordance with local government accounting standards issued by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants, with the exception of Section 3270..." (1 of 12).
- In Alberta, a standard audit opinion is issued to ensure municipal auditors are using appropriate, acceptable opinion wording that is consistent across all municipalities.
- We noted that based on a comparison of our results to the results in the PSAB report entitled, *"Local Government Financial Reporting 2001"* (1999 data), the level of compliance with PSAB recommendations in parts of Canada is increasing.

Conclusion

- There is increased compliance with PSAB recommendations in parts of Canada leading to more transparent and consistently prepared financial statements in those provinces. Processes were adopted in Alberta and British Columbia and are underway in Ontario and Saskatchewan to bring municipalities in those provinces into compliance with the PSAB recommendations. Manitoba municipalities are not as close to PSAB compliance as are some municipalities in those provinces.

7.0 What is the Department of Intergovernmental Affairs Doing to Ensure that Municipalities are in Compliance with Section 183(1) of The Municipal Act?

Findings

- The current Municipal Act reflects a number of significant changes from the previous Act. This has impacted the role of the Branch. The Branch is less involved in municipal operations, and is also less involved in monitoring municipalities and approving financial operations.
- The Branch of Intergovernmental Affairs' policy for provincial/municipal relations is that the Department should not act in an overseer role, but rather should encourage the development of independently governed municipalities.
- We were advised by the Branch that there was no formal, written transition plan to facilitate internal Branch operational changes when the new Municipal Act became effective in 1997. However, the Branch indicated that considerable work was done to help municipalities make the transition to the new Act.
- A review of Branch job descriptions identified that senior Branch staff is responsible for:
    - "Timely administration of statutory controls in a consistent manner that meets departmental policy and the requirements of municipal councils to provide accountable municipal services efficiently and effectively;" and
    - "Financial reporting forms which meet the changing national standards of financial reporting as recommended by the Canadian Institute of Chartered Accountants."
- The new municipal legislation, with its enhanced autonomy and new powers and authorities, entailed significant transitions in policies and procedures and new approaches by the Province, the municipalities and citizens. Substantial work was required for implementation of these matters, with the need to determine transitional priorities in the context of other, concurrent demands on both Departmental and municipal resources. In addition, during this transitional period, the Department devoted significant resources to local governments to ensure the viability of local communities in a variety of ways, for example: tax sharing and various other partnership opportunities, infrastructure, etc.
- The Department indicated that they did not work alone on transitional or other education needs, but instead worked, and continues to work, in

partnership with the Association of Manitoba Municipalities (AMM), the Manitoba Municipal Administrators' Association (MMAA), and others. As per the Department, the Department and its partners have provided a number of training opportunities, addressing issues such as the procedural and organizational by-law, the public hearing process and increased access to information, and continue to work on providing educational opportunities in these and other areas of municipal responsibility.

- The Department does not view its role as being responsible to provide basic education to municipal administrators on how to prepare monthly financial statements. The ability to prepare those statements is a reasonable expectation of a qualified CAO. However, the Department does give written direction to municipalities on how to hire a qualified CAO and how to engage a qualified auditor. The Department also expects that municipalities will hire qualified persons as CAOs, which means the CAO will have some expertise in routine municipal accounting. The Department does not offer training in basic municipal accounting because that information is available as part of the University of Manitoba's Municipal Administrator's Certificate Program, which includes a one-year course on municipal accounting supported by an extensive course manual on municipal accounting matters. The MMAA also imposes significant on-going professional development obligations on its members. A recent review indicates that no other western province currently provides direct training and education to municipal employees on financial statements and reporting. Given the availability of the Certificate Program accounting manual and also the various CICA publications on municipal accounting, the Department directs its training materials to issues where no other resources are available.
- The Branch provides a Municipal Act Procedures Manual (Manual) to every municipality to assist them with operational issues associated with managing a municipality. The Manual has one section, Financial Administration, that relates to financial/accounting matters. Other sections of the Manual contain general information and guidance on how a municipality should be conducting its business to ensure good governance. The Manual also outlines the legal requirements of the Act. The Financial Administration section provides detailed information on the Financial Plan, the Municipal Audit tendering process and the approval process for transfers and deficits. However, it does not provide guidance or recommendations on municipal accounting matters.
- Interviews with senior Branch staff confirmed that the Department does not issue written or formal guidance on municipal accounting to municipalities other than providing the prescribed form to the municipalities' external auditors.
- The Branch receives questions on municipal accounting from Department staff, municipal staff, and others. The Department's Municipal Services Officers (MSOs) provide on-going advice and assistance to municipal councils, administrators in Manitoba and to citizens on a wide range of

municipal matters. As per the Branch, with an average of approximately 2,800 phone calls annually per MSO, in order to provide responses in a timely way, only requests made in writing are responded to in writing. However, notes of telephone conversations are kept, and may form the basis for the numerous articles, workshops, seminars and other presentations made by the MSOs.

- Each year, the Branch is invited to present seminars at the annual conventions of AMM and MMAA. One seminar from the Branch would have a focus on accounting. At this seminar, various handouts are provided which have included common accounting and financial reporting issues identified by the external auditors of municipalities. These items are verbally addressed. Written recommendations on issues were not provided to participants.
- The Branch electronically sends each municipality's external auditor the prescribed annual financial statement form, in which the audited statements are to be prepared, along with a report cover for the statements. The external auditor completes the form and submits a copy of it along with a copy of the auditor's report and the supplementary report, to Council and to the Minister of Intergovernmental Affairs by June 30.
- The Branch is responsible for the prescribed form used by municipalities for financial statement preparation. The Branch confirmed this form has not been significantly updated for compliance with PSAB.
- The Branch indicated to us that they continue to remind municipalities that it is the municipality's responsibility to prepare the financial statements and the auditor's responsibility to conduct the audit.
- The Branch receives all the following information that is required under The Municipal Act to be submitted to the Minister:
    - financial information return [Section 183(2) by March 15];
    - audited financial statement [Sections 186(1) and 195 by June 30];
    - auditor's report [Sections 190(1) and 193(1) by June 30]; and
    - supplementary audit report [Sections 190(1) and 190(2) by June 30].
- The Branch maintains a database of all the required submissions that have been received from municipalities and follows-up with those municipalities who have not submitted information.
- The supplementary report, required under Section 190(2) of The Municipal Act (see Appendix F for the complete list of requirements), states an opinion on:
    - accounting procedures and control systems;
    - the disbursement of the funds in a municipality (compliance with the Act);
    - any irregularities that come to their attention during the audit;
    - any matters the auditor feels the Minister/Council should be aware of; and

  - recommendations regarding proper performance of duties and keeping of records and the books.

- The Branch relies on the supplementary report to provide information on irregularities at the municipality. The Department has distributed to municipal auditors a list of the matters on which a supplemental opinion is expected. The Department also notes that the municipal auditors are required to hold a professional designation, and as such are expected to have a good understanding of the matters on which they give a professional opinion.
- The Branch reviews all audit reports and supplementary reports and notes qualified audit reports and supplementary reports with significant issues. These areas are followed up with the municipality and their external auditor. The external auditor is contacted because they hold the copy of the audited year end financial statement form, even though the municipality is responsible for the statements.
- The Branch advises municipalities on how to resolve issues brought up in the supplementary audit report. The types of items reported in a supplementary report vary from municipality to municipality, but may include items such as unsigned minutes, improper procedure followed when passing by-laws, and unapproved deficits.
- The supplementary report is defined by the *CICA Handbook* (CICA HB AuG-13 Special reports on regulated financial institutions) to be a derivative report, as noted in the following sections:
  - *Section 11 - A derivative report is a by-product of the financial statement audit. The auditor is required to communicate in writing transactions or conditions encountered during a financial statement audit that are relevant to the matters specified in legislation.*
  - *Section 12 - The derivative reporting responsibility does not require the auditor to provide any form of assurance on the matters specified in the legislation. Accordingly, no auditing procedures in addition to those carried out in the normal course of the financial statement audit would be carried out.*
- AuG-13, section 14 notes that a derivative reporting requirement would not change the scope of a financial statement audit, because the nature, extent, and timing of auditing procedures performed during a financial statement audit are not changed.
- Review of supplementary reports confirmed that external auditors use no consistent format for presentation of the supplementary report. This side-effect of derivative reports is recognized in AuG-13, section 16, as follows:

  > *"... an auditor's understanding of the reporting responsibilities may differ from a regulator's understanding and from another auditor's understanding. This may lead to varying interpretations of the matters specified in legislation and to inconsistencies in the types of transactions or conditions identified and reported by auditors."*

- Inconsistencies in reporting result because regulators and auditors likely have different expectations, and understandings of what can be reasonable expected from a derivative report. As noted in AuG-13, section 22:

  > *"When there is no comprehensive and precise interpretation of the matters on which derivative reports are required, there will likely be inconsistencies with respect to the types of transactions or conditions identified and reported by different auditors."*

Conclusions

- By continuing to require municipalities to submit their financial statements in the prescribed form the Department has not promoted adoption of PSAB recommendations as highlighted in Section 183(1) of The Municipal Act.
- The delay of the Department to prescribe PSAB recommendations has contributed to financial reporting that is neither clearly understandable nor comparable. This may result in a lack of transparency in financial information to council members, municipal administrators, and citizens, and may hamper effective decision-making on the allocation of municipal resources.
- Although the Department reminds municipalities that it is their responsibility to prepare the financial statements and that it is the auditor's responsibility to conduct the audit, by sending the blank financial statement form directly to the external auditor of a municipality and not to the municipality, the Department is contributing to the impression that the external auditor is responsible for the year end audited financial statements rather than the municipality.
- The Department is relying on the supplementary report to assist them in identifying financial problems in a municipality and to provide them with comfort on the operations of a municipality. There may be a reliance gap between what the external auditors are providing in the supplementary report and what the Department requires.
- Supplementary reports are presented inconsistently due to lack of comprehensive and precise interpretation of reportable matters.
- The Department does not provide formal guidance on municipal accounting, and on the preparation of monthly or annual financial statements. Municipalities have no formal source of reference from which they can determine a proper basis for preparing municipal accounting records. This lack of documented accounting standards and formal guidance from the Department hinders municipalities from complying with Section 183(1) of The Municipal Act.

8.0 Recommendation for the Department of Intergovernmental Affairs

- That the Department of Intergovernmental Affairs consider what role it can undertake in encouraging financial statements of municipalities to be prepared in accordance with the PSAB recommendations of the Canadian Institute of Chartered Accountants, which in turn would have municipalities preparing annual audited financial statements in compliance with Section 183(1) of The Municipal Act.
    - This could involve discussions with the Institute of Chartered Accountants of Manitoba (ICAM), the Association of Manitoba Municipalities (AMM), and the Manitoba Municipal Administrators' Association (MMAA) to develop a time table for adopting generally accepted accounting principles over a short period of time; eliminating the prescribed form in favour of a general requirement for financial statements to be prepared in accordance with PSAB; invitation of PSAB representatives to conduct training in Manitoba; discussions with the ICAM to inform the professions of changes; and having municipalities discuss with their external auditors a timetable for adopting generally accepted accounting principles as soon as possible so that they can move into compliance with The Municipal Act.
    - The Department could prescribe a standard audit opinion that states that financial statements are *"in accordance with recommendations made by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants"*.

Comments from Department

The Department of Intergovernmental Affairs supports the Auditor General's recommendation that preparation of municipal financial statements in accordance with PSAB recommendations should be encouraged, so that those statements may provide financial information to councils and citizens that is more understandable, timely and consistent. The Department recognizes that while public access to information and council accountability have been enhanced under the new Municipal Act, adopting PSAB recommendations would be a further improvement.

The Department believes it critical to state at the outset that citizens should not be concerned that significant problems exist with their municipality's financial affairs, simply because the format of the municipality's financial statement is not PSAB compliant as the Auditor General has recommended. Being non-PSAB compliant does not mean that the financial affairs of Manitoba municipalities have been or are misrepresented. It simply means that the form being used is not as easily understandable as it could be.

The Department also supports developing a process to implement PSAB recommendations in conjunction with AMM, ICAM, MMAA, and other interested parties. That process would reflect the uniqueness of the 201 Manitoba municipalities, each with its own capacity, systems, resources, and priorities, in balance with the broader public interest in improved access to information. Such an implementation process should ensure that conversion requirements specific to Manitoba municipalities are in place, and that training necessary to support broad-based conversion will be available. With other aspects of the public accountability framework now in place, the obstacles to adopting PSAB recommendations are diminished, and the Department looks to moving forward to adopt PSAB for municipal accounting in Manitoba, as soon as reasonably practicable.

GLOSSARY OF TERMS

Appendix A

Capital Assistance	Financial assistance provided for infrastructure projects.
CICA	The Canadian Institute of Chartered Accountants. The CICA, together with the provincial and territorial institutes of chartered accountants, represents a membership of 68,000 professional accountants and 8,200 students. The CICA conducts research into current business issues and sets accounting and auditing standards for business, not-for-profit organizations and government. It issues guidance on control and governance, publishes professional literature, develops education programs and represents the CA profession nationally and internationally.
Conditional Grants	Restricted financial assistance provided to municipalities by the Provincial Government in support of operational or capital expenditures. Grants are awarded based on certain conditions being present at the outset, during the program life cycle or being present upon completion of the project.
GAAP	Generally Accepted Accounting Principles. The term generally accepted accounting principles is used to describe the basis on which financial statements are normally prepared. It encompasses not only specific rules, practices and procedures relating to particular circumstances, but also broad principles and conventions of general application, including the underlying concepts described in this Section (CICA HB Section 1000). Specifically, generally accepted accounting principles comprise the Accounting Recommendations in the Handbook, and when a matter is not covered by a recommendation, other accounting principles that either: a) are generally accepted by virtue of their use in similar circumstances by a significant number of entities in Canada; or b) are consistent with the recommendations in the Handbook and are developed through the exercise of professional judgement, including consultation with other informed accountants where appropriate, and the application of the concepts described in this Section (CICA HB Section 1000). In exercising professional judgement, established principles for analogous situations dealt with in the Handbook would be taken into account.
General Revenue Fund	The fund consisting of revenue generated from taxation and royalties. Its expenditures are approved by the Legislature/ municipal council during the estimates/budget process.
Government Transfers	Revenue transfers from other governments, transfers to and from reserve funds, transfers from other funds and transfers to other funds that have affected the balance in the total Reserve Fund.

Appendix A
(cont'd.)

Operating Assistance	Financial assistance provided to assist in the cost of delivering all municipal services and operations, including income assistance services and public health managed services.
PSAB	Public Sector Accounting Board. The CICA Board of Directors has authorized the Public Sector Accounting Board (PSAB) to issue recommendations and guidance with respect to matters of accounting in the public sector. PSAB issues such recommendations and guidance to serve the public interest by strengthening accountability in the public sector through developing, recommending and gaining acceptance of accounting and financial reporting standards of good practice.
Unconditional Grants	Unrestricted financial assistance provided to municipalities by the Province to assist in the cost of operational or capital expenditures. Grants may be awarded in a number of ways, including: per capita, prior year's expenditures, or on approved funding.

SECTIONS OF PROVINCIAL ACTS RELATING TO FINANCIAL REPORTING FOR LOCAL GOVERNMENTS FOR ALL PROVINCES IN CANADA

Appendix B

Manitoba

M225 - The Municipal Act

Annual financial statements 183(1)

A municipality must in each year prepare annual financial statements of the municipality for the immediately preceding year in accordance with the generally accepted accounting principles for municipal governments recommended from time to time by the Canadian Institute of Chartered Accountants and any modification of those principles or any supplementary accounting standards or principles approved by the minister.

Saskatchewan

R26.1 Rural Municipality Act, 1989

Auditor's report

70(1) On or before May 15 in each year, the administrator shall prepare a financial statement for the municipality for the fiscal year ending on December 31 of the preceding year, in accordance with generally accepted accounting principles for local governments as recommended by the Canadian Institute of Chartered Accountants.

U-11 Urban Municipality Act, 1984

Duties of treasurer

65(1) The treasurer shall:

(g.1) on or before June 1 in each year, prepare a financial statement for the urban municipality for the fiscal year ending on December 31 of the preceding year, in accordance with generally accepted accounting principles for local governments as recommended by the Canadian Institute of Chartered Accountants.

c.N-5.1 Northern Municipalities Act

Audit

61(7) On or before July 1 in each year, the auditor shall prepare a financial statement for the northern municipality for the fiscal year ending on December 31 of the preceding year, in accordance with generally accepted accounting principles for local governments as recommended by the Canadian Institute of Chartered Accountants.

Alberta

The Municipal Government Act Chapter M-26.1

Annual Financial Statements 276(1)

Each municipality must prepare annual financial statements of the municipality for the immediately preceding year in accordance with

Appendix B
(cont'd.)

a) the generally accepted accounting principles for municipal governments recommended from time to time by the Canadian Institute of Chartered Accountants, and
b) any modification of the principles or any supplementary accounting standards or principles established by the Minister by regulation.

Financial statements for controlled corporations 279

Each controlled corporation must prepare annual financial statements in accordance with

a) the requirements of the legislation under which the corporation was formed, and
b) if there are no requirements, the generally accepted accounting principles recommended from time to time by the Canadian Institute of Chartered Accountants.

Auditor's reports 281

1) The auditor for the municipality must report to the council on the annual financial statements and financial information return of the municipality.
2) The reports on the annual financial statements and financial information return must be in accordance with
    a) the form and the reporting standards recommended from time to time by the Canadian Institute of Chartered Accountants, and
    b) any modifications of the form or standards or any supplementary form or standard established by the Minister by regulation.

British Columbia

The Local Government Act Part 9

Annual financial statements 328

1) The fiscal year for a municipality is the calendar year.
2) Municipal financial statements for a fiscal year must be
    a) prepared by the municipal officer assigned responsibility under section 199 [financial administration], and
    b) presented to council for its acceptance.
3) Subject to subsection (4), the financial statements must be prepared in accordance with generally accepted accounting principles for local governments.
4) The inspector may require or authorize, generally or for a specified municipality, that the financial statements vary from or include additional information to the requirements of subsection (3).

Auditor's reports 331.3

1) The auditor for the municipality must report to the council on the annual financial statements of the municipality.
2) The report under subsection (1) must be in accordance with the form and the reporting standards recommended by the Canadian institute of Chartered Accountants.

Ontario

The Deputy Minister of the Ministry of Municipal Affairs and Housing sent a letter to all Municipal Treasurers and Auditors in Ontario on April 12, 2000. The letter informed them that:

Appendix B
(cont'd.)

> *"It has been decided that the accounting recommendation and disclosure requirements, as prescribed by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants, be adopted for use by Ontario municipalities.*
>
> *...Commencing with the reporting year 2000, municipalities will be required to prepare their financial statement in full compliance with the accounting recommendation applicable to local governments as set out in the PSAB Handbook."*

Quebec

N/A – review of C27.1 – Municipal code of Quebec, did not reveal any reference accounting standards or policies to be used in the preparation of financial statements except the following:

176

At the end of the fiscal year, the secretary-treasurer shall draw up the financial report for the past fiscal year, and attest that it is accurate.

The financial report shall be drawn up on the forms furnished by the Minister of Municipal Affairs. It includes the financial statements, a statement fixing the aggregate taxation rate of the municipality within the meaning of the regulation made under section 262 of the Act respecting municipal taxation (chapter F-2.1) and any other information required by the Minister.

966.2

The auditor shall audit, of the fiscal year for which he was appointed, the financial statement, the statement fixing the aggregate taxation rate and any other document determined by the Minister of Municipal Affairs by regulation published in the Gazette officielle due Quebec.

The auditor shall make a report of his audit to the council. He shall state in his report, in particular, whether

1) the financial statements faithfully represent the municipality's financial position on 31 December and the results of its operations of the fiscal year ending on that date.

New Brunswick

N/A – review of M22 - Municipalities Act, did not reveal any reference accounting standards or policies to be used in the preparation of financial statements except the following:

Regulations 192(1)

The Lieutenant-Governor in Council may make regulations to give effect to this Act and, without restricting the generality of the foregoing, may make regulations

e) prescribing the forms and procedures for accounting and formulating of financial statement in all municipalities;
g) providing for regular and spot audits of municipal accounts.

Appendix B
(cont'd.)

Nova Scotia

Municipal Government Act

451(1) The Minister may prescribe the

a) system of accounting to be used by municipalities and the form in which records shall be kept and funds accounted for;
c) manner in which municipal accounts are to be audited and the reports to be provided by municipal auditors.

Newfoundland

N/A – review did not reveal any reference accounting standards or policies to be used in the preparation of financial statements, except the following subsection on books of accounts.

M24 - Municipalities Act, 1999

Financial statements 86(1)

A council shall prepare and adopt before June 1 of each year a financial statement showing a full and detailed balance sheet and statement of revenue and expense of the council for the preceding financial year.

Books of accounts and records 258

1) An administrator shall keep correct books of account relating to the affairs of a municipality showing the financial condition of that municipality.
2) The minister or a person authorized by him or her may examine and inspect the books of account.
3) The books of account shall be audited as required under section 87 to 92.
4) An administrator shall keep a correct record of all the proceedings taken by him or her relating to the affairs of the municipality.
5) And administrator shall at least once a month provide the minister with statements showing the assets and liabilities and the financial condition of the municipality for the preceding month.

Prince Edward Island

M13 - Municipalities Act

Auditor 27(3)

The auditor shall make a report to the council of the financial statements of the municipality and shall state in his report whether, in his opinion, the financial statements referred to therein present fairly the financial position of the municipality and the results of its operations during the immediately preceding year, in accordance with generally accepted accounting principles applied on a basis consistent with that of the previous year.

STANDARD MANAGEMENT'S REPORT AND AUDITOR'S REPORT

Appendix C

Management's Report

The management of the City/Town/Rural Municipality of (Name of City/Town/Rural Municipality) is responsible for the integrity of the accompanying consolidated financial statements and all other information within this Annual Report. The consolidated financial statements have been prepared by management in accordance with generally accepted accounting principles for municipal governments established by the Canadian Institute of Chartered Accountants. The preparation of the consolidated financial statements necessarily includes some amounts which are based on the best estimates and judgements of management. Financial data elsewhere in the Annual Report is consistent with that of the financial statements.

To assist in meeting its responsibility, management maintains accounting, budget and other internal controls. These controls provide reasonable assurance that transactions are appropriately authorized and accurately recorded, that assets are properly accounted for and safeguarded, in order that the integrity of financial records is maintained.

The consolidated financial statements have been audited by the independent firm of (Name of Firm). Their report to the Mayor and Council, stating the scope of their examination and opinion of the consolidated financial statements, follows.

First and Last Name
City Manager (or equivalent)
June 30, 200__

First and Last Name
Director of Finance/CFO

Appendix C
(cont'd.)

Auditor's Report

To the Members of Council:

We have audited the consolidated statement of financial position of the (Name of Municipality) as at December 31, 200__ and the consolidated statement of financial activities with change in fund balances and the consolidated statement of changes in financial position for the year then ended. These financial statements are the responsibility of the municipality's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

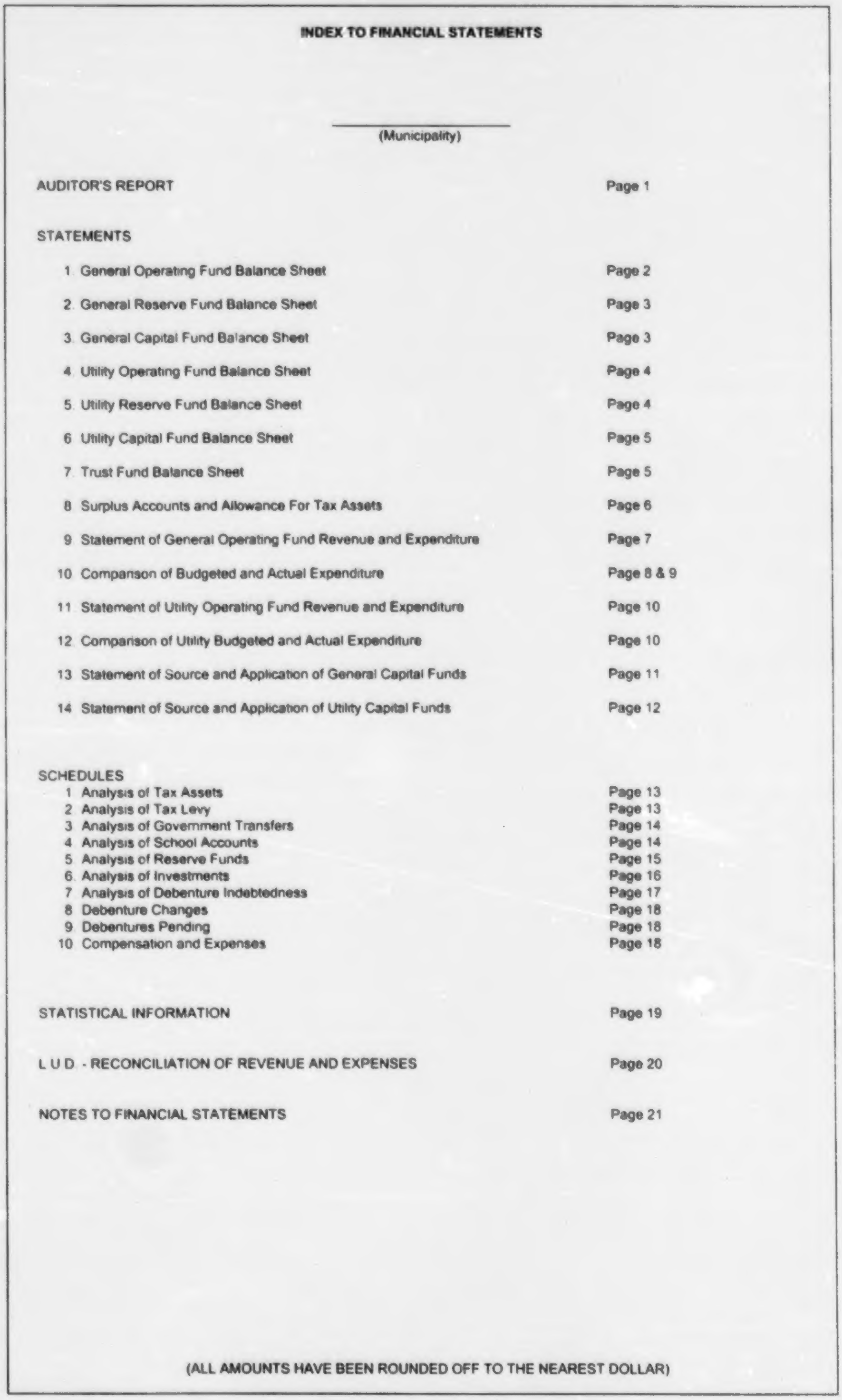
In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the (Name of Municipality) as at December 31, 200__ and the results of its financial activities and the changes in its financial position for the year then ended in accordance with accounting principles for municipal governments established by the Canadian Institute of Chartered Accountants.

Name of Municipality
(Date)

PUBLIC ACCOUNTANTS

BLANK COPY OF BRANCH-PRESCRIBED ANNUAL FINANCIAL STATEMENT FORM

Appendix D



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(ALL AMOUNTS HAVE BEEN ROUNDED OFF TO THE NEAREST DOLLAR)

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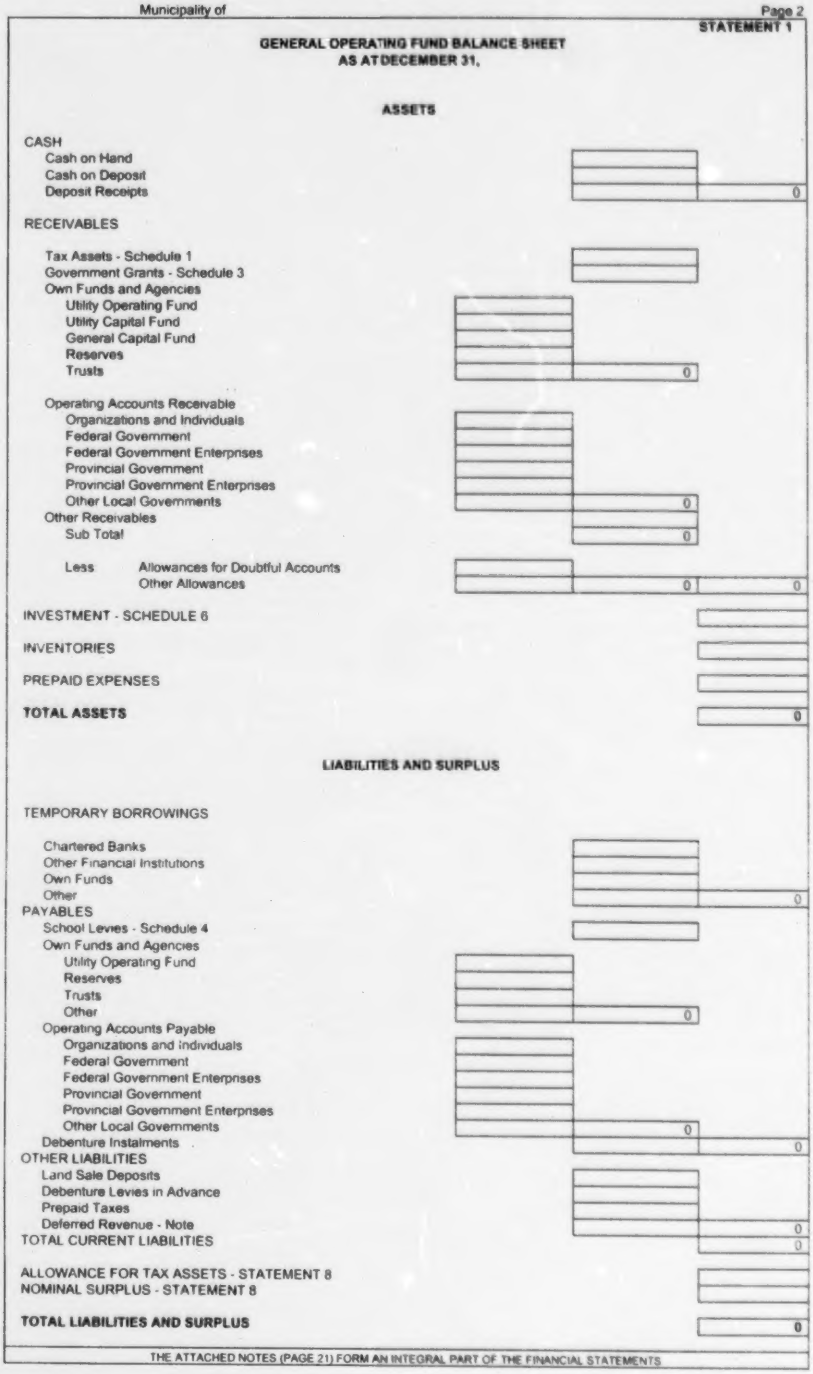
(cont'd.)

Municipality of

Page 1

AUDITOR'S REPORT

Appendix D
(cont'd.)



Municipality of

Page 2

STATEMENT 1

GENERAL OPERATING FUND BALANCE SHEET
AS AT DECEMBER 31,

ASSETS

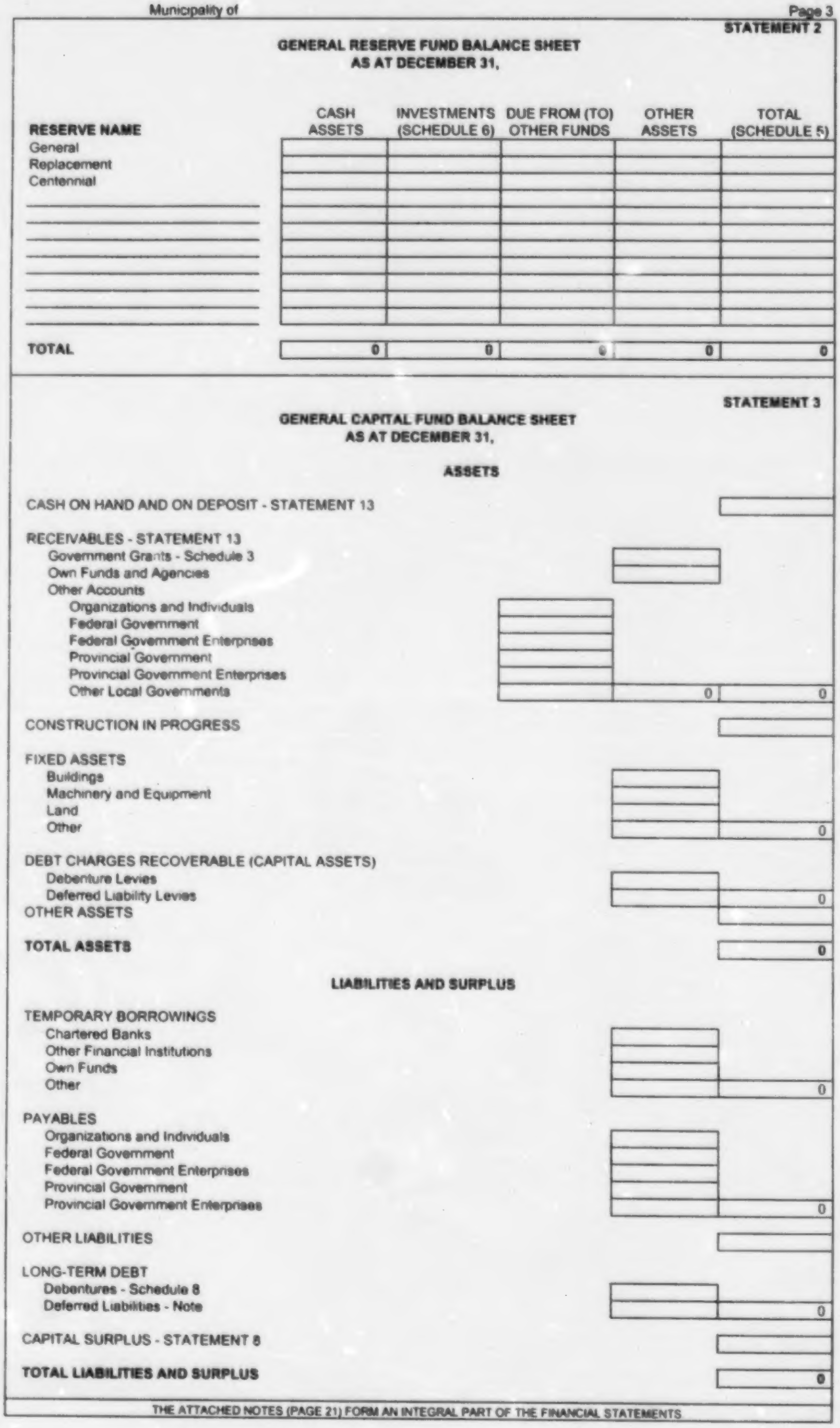
CASH			
Cash on Hand			
Cash on Deposit			
Deposit Receipts			0
RECEIVABLES			
Tax Assets - Schedule 1			
Government Grants - Schedule 3			
Own Funds and Agencies			
Utility Operating Fund			
Utility Capital Fund			
General Capital Fund			
Reserves			
Trusts		0	
Operating Accounts Receivable			
Organizations and Individuals			
Federal Government			
Federal Government Enterprises			
Provincial Government			
Provincial Government Enterprises			
Other Local Governments		0	
Other Receivables			
Sub Total		0	
Less Allowances for Doubtful Accounts			
Other Allowances		0	0
INVESTMENT - SCHEDULE 6			
INVENTORIES			
PREPAID EXPENSES			
TOTAL ASSETS			0

LIABILITIES AND SURPLUS

TEMPORARY BORROWINGS			
Chartered Banks			
Other Financial Institutions			
Own Funds			
Other			0
PAYABLES			
School Levies - Schedule 4			
Own Funds and Agencies			
Utility Operating Fund			
Reserves			
Trusts			
Other		0	
Operating Accounts Payable			
Organizations and Individuals			
Federal Government			
Federal Government Enterprises			
Provincial Government			
Provincial Government Enterprises			
Other Local Governments		0	
Debenture Instalments			0
OTHER LIABILITIES			
Land Sale Deposits			
Debenture Levies in Advance			
Prepaid Taxes			
Deferred Revenue - Note			0
TOTAL CURRENT LIABILITIES			0
ALLOWANCE FOR TAX ASSETS - STATEMENT 8			
NOMINAL SURPLUS - STATEMENT 8			
TOTAL LIABILITIES AND SURPLUS			0

THE ATTACHED NOTES (PAGE 21) FORM AN INTEGRAL PART OF THE FINANCIAL STATEMENTS

Appendix D
(cont'd.)



Municipality of

Page 3

STATEMENT 2

GENERAL RESERVE FUND BALANCE SHEET
AS AT DECEMBER 31,

RESERVE NAME	CASH ASSETS	INVESTMENTS (SCHEDULE 6)	DUE FROM (TO) OTHER FUNDS	OTHER ASSETS	TOTAL (SCHEDULE 5)
General					
Replacement					
Centennial					
TOTAL	0	0	0	0	0

STATEMENT 3

GENERAL CAPITAL FUND BALANCE SHEET
AS AT DECEMBER 31,

ASSETS

CASH ON HAND AND ON DEPOSIT - STATEMENT 13			
RECEIVABLES - STATEMENT 13			
Government Grants - Schedule 3			
Own Funds and Agencies			
Other Accounts			
Organizations and Individuals			
Federal Government			
Federal Government Enterprises			
Provincial Government			
Provincial Government Enterprises			
Other Local Governments		0	0
CONSTRUCTION IN PROGRESS			
FIXED ASSETS			
Buildings			
Machinery and Equipment			
Land			
Other			0
DEBT CHARGES RECOVERABLE (CAPITAL ASSETS)			
Debenture Levies			
Deferred Liability Levies			0
OTHER ASSETS			
TOTAL ASSETS			0

LIABILITIES AND SURPLUS

TEMPORARY BORROWINGS		
Chartered Banks		
Other Financial Institutions		
Own Funds		
Other		0
PAYABLES		
Organizations and Individuals		
Federal Government		
Federal Government Enterprises		
Provincial Government		
Provincial Government Enterprises		0
OTHER LIABILITIES		
LONG-TERM DEBT		
Debentures - Schedule 8		
Deferred Liabilities - Note		0
CAPITAL SURPLUS - STATEMENT 8		
TOTAL LIABILITIES AND SURPLUS		0

THE ATTACHED NOTES (PAGE 21) FORM AN INTEGRAL PART OF THE FINANCIAL STATEMENTS

Appendix D
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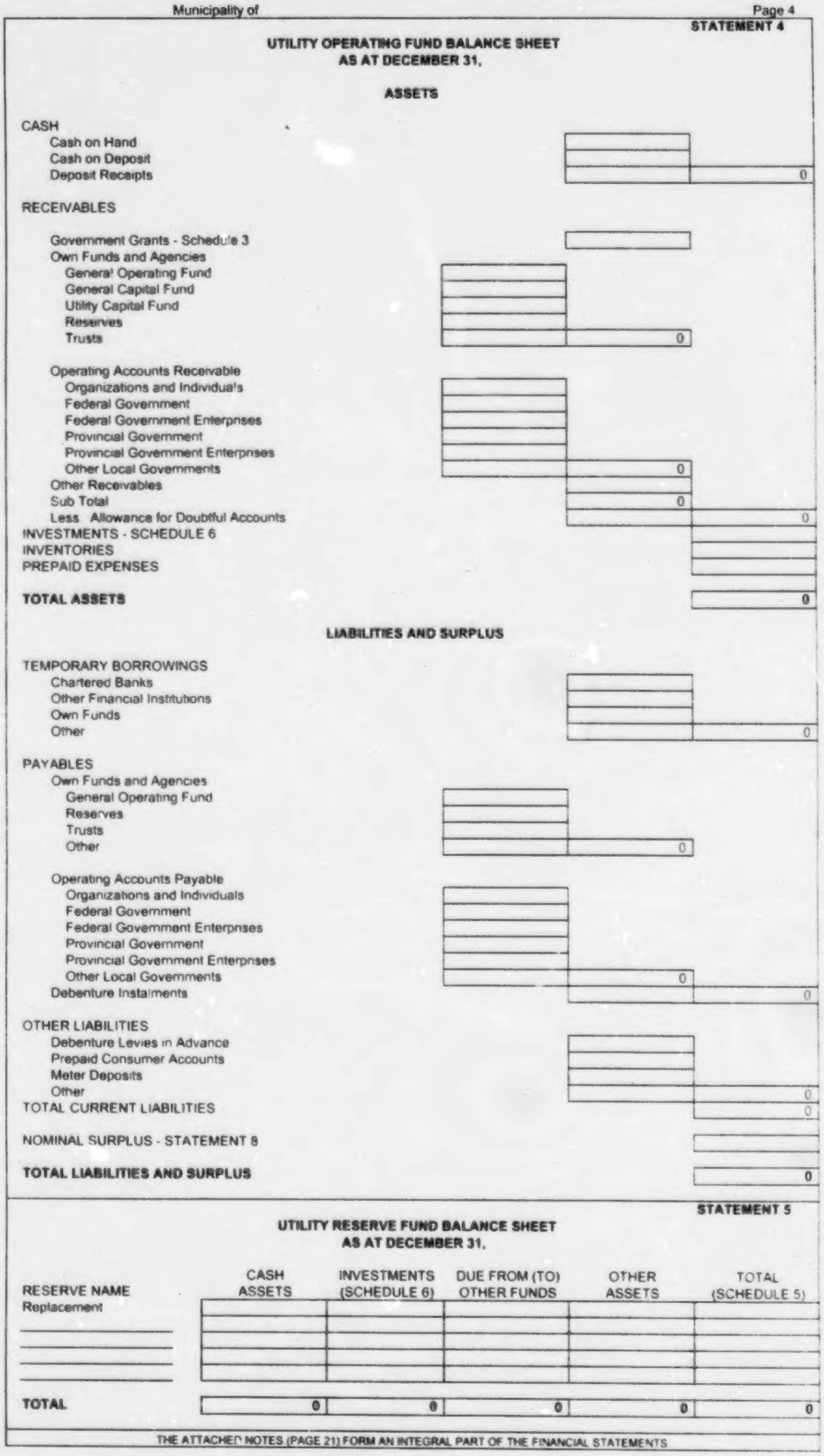

Municipality of   Page 4

STATEMENT 4

UTILITY OPERATING FUND BALANCE SHEET
AS AT DECEMBER 31,

ASSETS

CASH			
Cash on Hand			
Cash on Deposit			
Deposit Receipts			0
RECEIVABLES			
Government Grants - Schedule 3			
Own Funds and Agencies			
General Operating Fund			
General Capital Fund			
Utility Capital Fund			
Reserves			
Trusts		0	
Operating Accounts Receivable			
Organizations and Individuals			
Federal Government			
Federal Government Enterprises			
Provincial Government			
Provincial Government Enterprises			
Other Local Governments		0	
Other Receivables			
Sub Total		0	
Less Allowance for Doubtful Accounts			0
INVESTMENTS - SCHEDULE 6			
INVENTORIES			
PREPAID EXPENSES			
TOTAL ASSETS			**0**

LIABILITIES AND SURPLUS

TEMPORARY BORROWINGS			
Chartered Banks			
Other Financial Institutions			
Own Funds			
Other			0
PAYABLES			
Own Funds and Agencies			
General Operating Fund			
Reserves			
Trusts			
Other		0	
Operating Accounts Payable			
Organizations and Individuals			
Federal Government			
Federal Government Enterprises			
Provincial Government			
Provincial Government Enterprises			
Other Local Governments		0	
Debenture Instalments			0
OTHER LIABILITIES			
Debenture Levies in Advance			
Prepaid Consumer Accounts			
Meter Deposits			
Other			0
TOTAL CURRENT LIABILITIES			0
NOMINAL SURPLUS - STATEMENT 8			
TOTAL LIABILITIES AND SURPLUS			**0**

STATEMENT 5

UTILITY RESERVE FUND BALANCE SHEET
AS AT DECEMBER 31,

RESERVE NAME	CASH ASSETS	INVESTMENTS (SCHEDULE 6)	DUE FROM (TO) OTHER FUNDS	OTHER ASSETS	TOTAL (SCHEDULE 5)
Replacement					
TOTAL	0	0	0	0	0

THE ATTACHED NOTES (PAGE 21) FORM AN INTEGRAL PART OF THE FINANCIAL STATEMENTS

Appendix D
(cont'd.)

Municipality of

STATEMENT 6

UTILITY CAPITAL FUND BALANCE SHEET
AS AT DECEMBER 31,

ASSETS

CASH ON HAND AND ON DEPOSIT - STATEMENT 14			
RECEIVABLES - STATEMENT 14			
Government Grants - Schedule 3			
Own Funds and Agencies			
Other Accounts			
Organizations and Individuals			
Federal Government			
Federal Government Enterprises			
Provincial Government			
Provincial Government Enterprises			
Other Local Governments		0	0
CONSTRUCTION IN PROGRESS			
FIXED ASSETS			
Buildings			
Machinery and Equipment			
Land			
Other			0
DEBT CHARGES RECOVERABLE (CAPITAL ASSETS)			
Debenture Levies			
Deferred Liability Levies			0
OTHER ASSETS			
TOTAL ASSETS			0

LIABILITIES AND SURPLUS

TEMPORARY BORROWINGS		
Chartered Banks		
Other Financial Institutions		
Own Funds		
Other		0
PAYABLES		
Organizations and Individuals		
Federal Government		
Federal Government Enterprises		
Provincial Government		
Provincial Government Enterprises		
Other Local Governments		0
OTHER LIABILITIES		
LONG-TERM DEBT		
Debentures - Schedule 8		
Deferred Liabilities - Note		0
CAPITAL SURPLUS - STATEMENT 8		
TOTAL LIABILITIES AND SURPLUS		0

STATEMENT 7

TRUST FUND BALANCE SHEET
AS AT DECEMBER 31,
ASSETS

TRUST NAME	CASH	INVESTMENTS (SCHEDULE 6)	OTHER FUNDS	OTHER	TOTAL
Cemetery					
Pension Funds					
Option Deposits					
Other					
TOTAL	0	0	0	0	0

LIABILITIES

	PAYABLES	OTHER FUNDS	OTHER	TRUST	TOTAL
Cemetery					
Pension Funds					
Option Deposits					
Other					
TOTAL	0	0	0	0	0

THE ATTACHED NOTES (PAGE 21) FORM AN INTEGRAL PART OF THE FINANCIAL STATEMENTS

Appendix D
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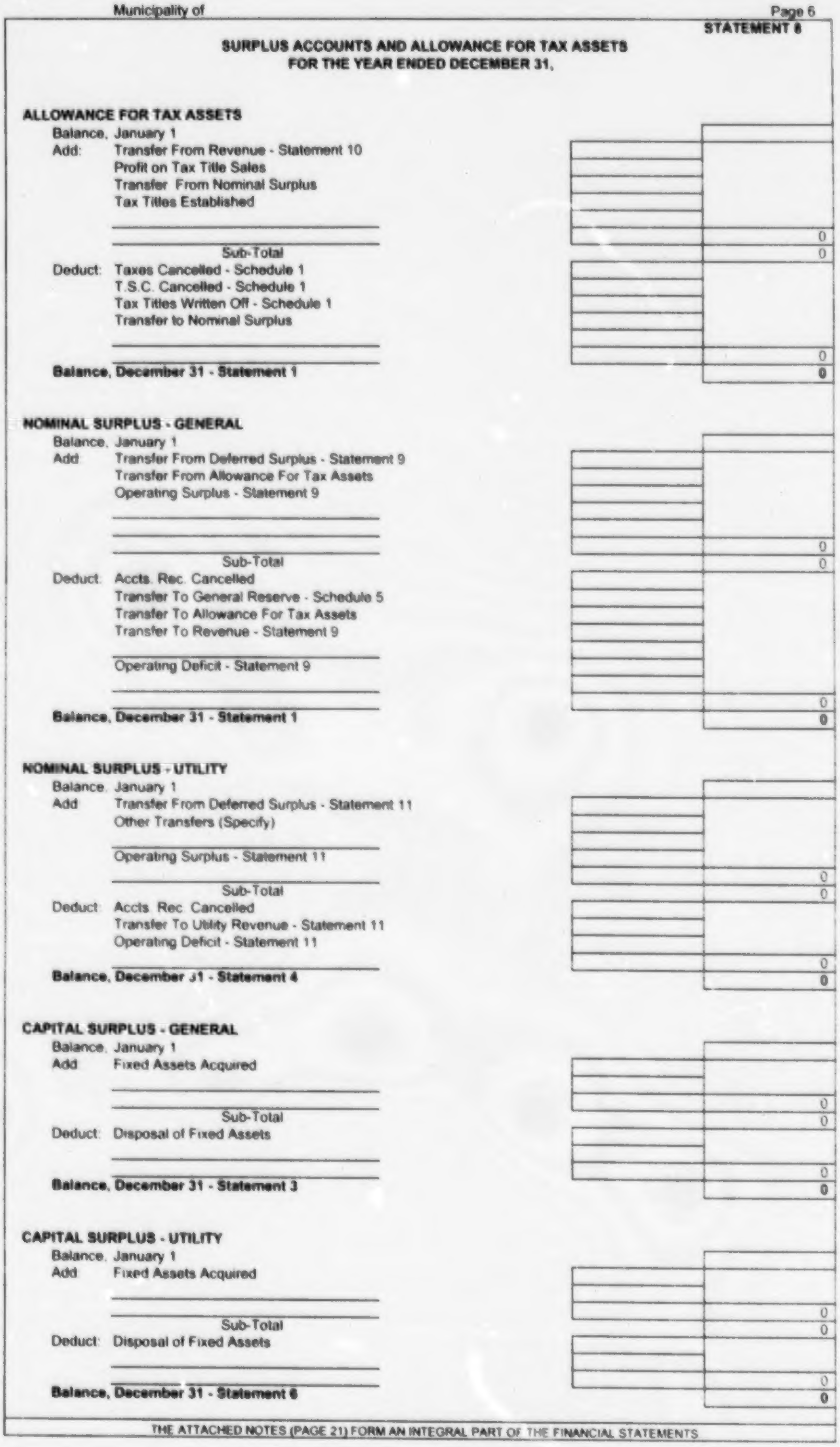

Municipality of

Page 6

STATEMENT 8

SURPLUS ACCOUNTS AND ALLOWANCE FOR TAX ASSETS
FOR THE YEAR ENDED DECEMBER 31,

ALLOWANCE FOR TAX ASSETS		
Balance, January 1		
Add: Transfer From Revenue - Statement 10		
Profit on Tax Title Sales		
Transfer From Nominal Surplus		
Tax Titles Established		
		0
Sub-Total		0
Deduct: Taxes Cancelled - Schedule 1		
T.S.C. Cancelled - Schedule 1		
Tax Titles Written Off - Schedule 1		
Transfer to Nominal Surplus		
		0
Balance, December 31 - Statement 1		**0**
NOMINAL SURPLUS - GENERAL		
Balance, January 1		
Add: Transfer From Deferred Surplus - Statement 9		
Transfer From Allowance For Tax Assets		
Operating Surplus - Statement 9		
		0
Sub-Total		0
Deduct: Accts. Rec. Cancelled		
Transfer To General Reserve - Schedule 5		
Transfer To Allowance For Tax Assets		
Transfer To Revenue - Statement 9		
Operating Deficit - Statement 9		
		0
Balance, December 31 - Statement 1		**0**
NOMINAL SURPLUS - UTILITY		
Balance, January 1		
Add: Transfer From Deferred Surplus - Statement 11		
Other Transfers (Specify)		
Operating Surplus - Statement 11		
		0
Sub-Total		0
Deduct: Accts. Rec. Cancelled		
Transfer To Utility Revenue - Statement 11		
Operating Deficit - Statement 11		
		0
Balance, December 31 - Statement 4		**0**
CAPITAL SURPLUS - GENERAL		
Balance, January 1		
Add: Fixed Assets Acquired		
		0
Sub-Total		0
Deduct: Disposal of Fixed Assets		
		0
Balance, December 31 - Statement 3		**0**
CAPITAL SURPLUS - UTILITY		
Balance, January 1		
Add: Fixed Assets Acquired		
		0
Sub-Total		0
Deduct: Disposal of Fixed Assets		
		0
Balance, December 31 - Statement 6		**0**

THE ATTACHED NOTES (PAGE 21) FORM AN INTEGRAL PART OF THE FINANCIAL STATEMENTS

Appendix D
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Municipality of

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STATEMENT 9

GENERAL OPERATING FUND
STATEMENT OF REVENUE AND EXPENDITURE
FOR THE YEAR ENDED DECEMBER 31,

REVENUE

TOTAL REVENUE FROM TAXATION				
OTHER REVENUE				
Taxes Added - Schedule 1				
Licenses and Permits				
Fines				
Parking Meters				
Sales of Service				
General Government				
Protection				
Transportation				
Less: Costs		0		
Environmental Health				
Public Health and Welfare				
Planning and Development				
Economic Development				
Recreation and Culture			0	
Sales of Goods				
Rentals of Fixed Assets				
Concessions and Franchises				
Returns From Investments				
Transfers From Utilities and Enterprises				
Tax Penalties - Schedule 1				
Miscellaneous Revenue				
Grants in Lieu of Taxes - Schedule 3				
Federal Government				
Federal Government Enterprises				
Provincial Government				
Provincial Government Enterprises				
Other Local Governments				
Non-Government Organizations			0	
Unconditional Government Transfers - Schedule 3				
Federal Government				
Provincial - Municipal Tax Sharing				
- Municipal Support Grants				
- VLT Revenues				
Other Local Governments			0	
Conditional Government Transfers - Schedule 3				
Federal Government				
Provincial Government				
Other Local Governments			0	0
TOTAL REVENUE FROM EXTERNAL SOURCES				0
TRANSFER FROM ACCUMULATED SURPLUS - STATEMENT 8				
TRANSFER FROM RESERVES - SCHEDULE 5				
OPERATING DEFICIT - STATEMENT 8				
TOTAL				0

EXPENDITURE

GENERAL GOVERNMENT SERVICES			
PROTECTIVE SERVICES			
TRANSPORTATION SERVICES			
ENVIRONMENTAL HEALTH SERVICES			
PUBLIC HEALTH AND WELFARE SERVICES			
ENVIRONMENTAL PLANNING AND COMMUNITY DEVELOPMENT SERVICES			
ECONOMIC DEVELOPMENT SERVICES			
RECREATION AND CULTURAL SERVICES			
FISCAL SERVICES			
TOTAL SERVICES			0
SURPLUS APPROPRIATIONS AND TRANSFERS			
Deferred Surplus - Operating Deficit			
Deferred Surplus - By-Law Obligation		0	
Transfer to Reserves - Statement 10			0
OPERATING SURPLUS - STATEMENT 8			
TOTAL			0

THE ATTACHED NOTES (PAGE 21) FORM AN INTEGRAL PART OF THE FINANCIAL STATEMENTS

Appendix D
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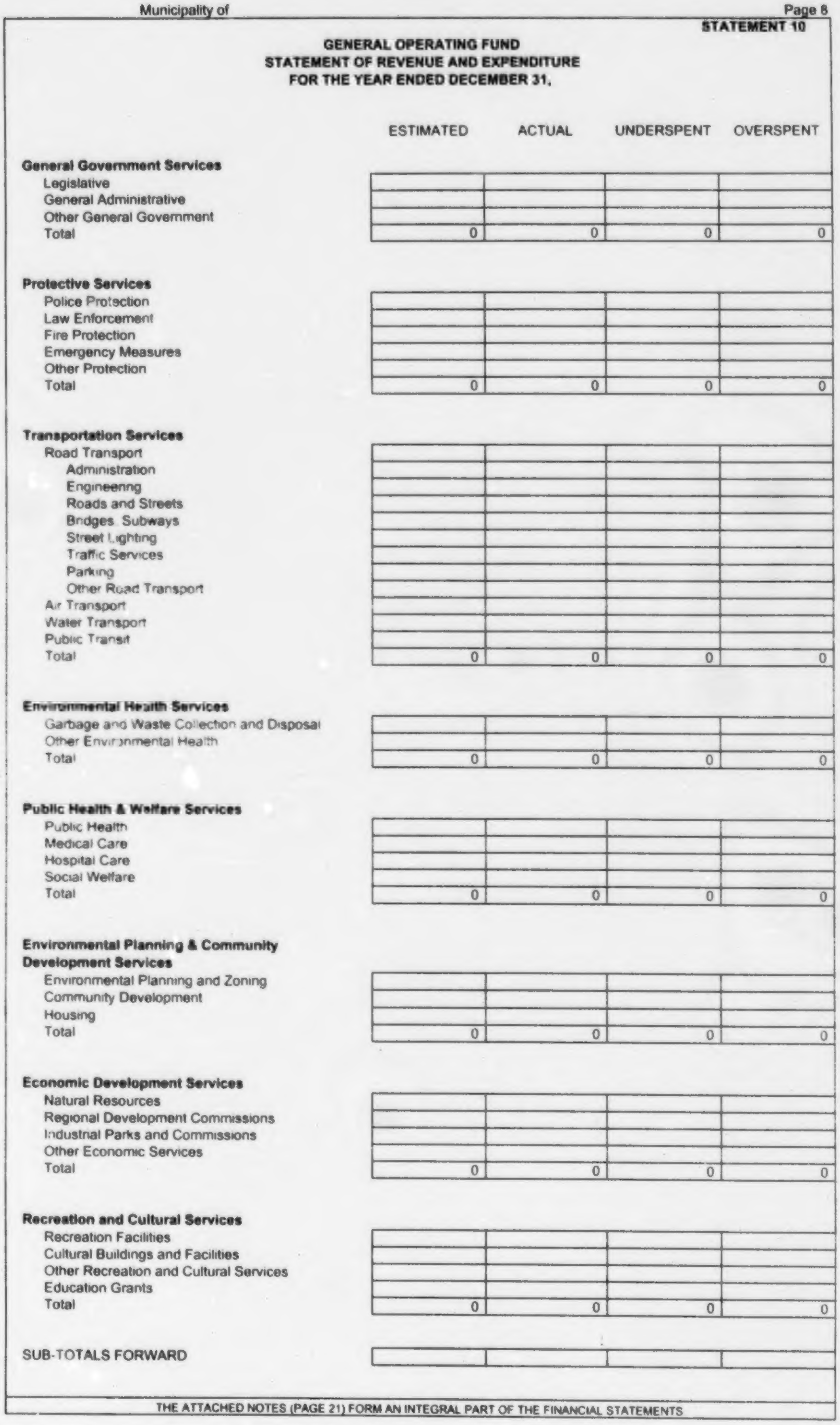

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STATEMENT 10

GENERAL OPERATING FUND
STATEMENT OF REVENUE AND EXPENDITURE
FOR THE YEAR ENDED DECEMBER 31,

	ESTIMATED	ACTUAL	UNDERSPENT	OVERSPENT
General Government Services				
Legislative				
General Administrative				
Other General Government				
Total	0	0	0	0
Protective Services				
Police Protection				
Law Enforcement				
Fire Protection				
Emergency Measures				
Other Protection				
Total	0	0	0	0
Transportation Services				
Road Transport				
Administration				
Engineering				
Roads and Streets				
Bridges, Subways				
Street Lighting				
Traffic Services				
Parking				
Other Road Transport				
Air Transport				
Water Transport				
Public Transit				
Total	0	0	0	0
Environmental Health Services				
Garbage and Waste Collection and Disposal				
Other Environmental Health				
Total	0	0	0	0
Public Health & Welfare Services				
Public Health				
Medical Care				
Hospital Care				
Social Welfare				
Total	0	0	0	0
Environmental Planning & Community Development Services				
Environmental Planning and Zoning				
Community Development				
Housing				
Total	0	0	0	0
Economic Development Services				
Natural Resources				
Regional Development Commissions				
Industrial Parks and Commissions				
Other Economic Services				
Total	0	0	0	0
Recreation and Cultural Services				
Recreation Facilities				
Cultural Buildings and Facilities				
Other Recreation and Cultural Services				
Education Grants				
Total	0	0	0	0
SUB-TOTALS FORWARD				

THE ATTACHED NOTES (PAGE 21) FORM AN INTEGRAL PART OF THE FINANCIAL STATEMENTS

Appendix D
(cont'd.)

Municipality of

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STATEMENT 10

GENERAL OPERATING FUND
COMPARISON OF REVENUE AND EXPENDITURE
FOR THE YEAR ENDED DECEMBER 31,

	ESTIMATED	ACTUAL	UNDERSPENT	OVERSPENT
SUB-TOTALS FORWARD				
Fiscal Services				
Transfers to Other Governments				
Other Municipal Governments				
______________				
______________				
Transfers to Own Funds				
Allowance for Tax Assets - Statement 8				
Capital Fund - Statement 13				
Utility Fund - Statement 11				
Other Funds				
Phase-in Tax Credit				
Public Debt Charges				
Debenture Debt Charges - Schedule 7				
Other Long-Term Debt Charges				
Interest on Short-Term Financing				
Bank Loan Interest				
Other Fund Loan Interest				
Tax Discounts - Schedule 1				
Other Debt Charges				
Debenture Discount				
Debenture Issue Costs				
Other				
Other Fiscal Services				
Total				
Transfer to Reserves				
General Reserve				
Specific Reserve				
- Replacement Reserve				
- Capital Development				
- Other ______________				
______________				
______________				
______________				
______________				
Total ______________				
Surplus Appropriations				
Total Estimated				
Total Actual				
Total Underspent				
Total Overspent				

RECONCILIATION WITH OPERATING SURPLUS OR DEFICIT

REVENUE			
Tax Revenue			
Other Revenue			
Revenue Surplus (Deficit)			
EXPENDITURE			
OPERATING SURPLUS (DEFICIT)			

THE ATTACHED NOTES (PAGE 21) FORM AN INTEGRAL PART OF THE FINANCIAL STATEMENTS

Appendix D
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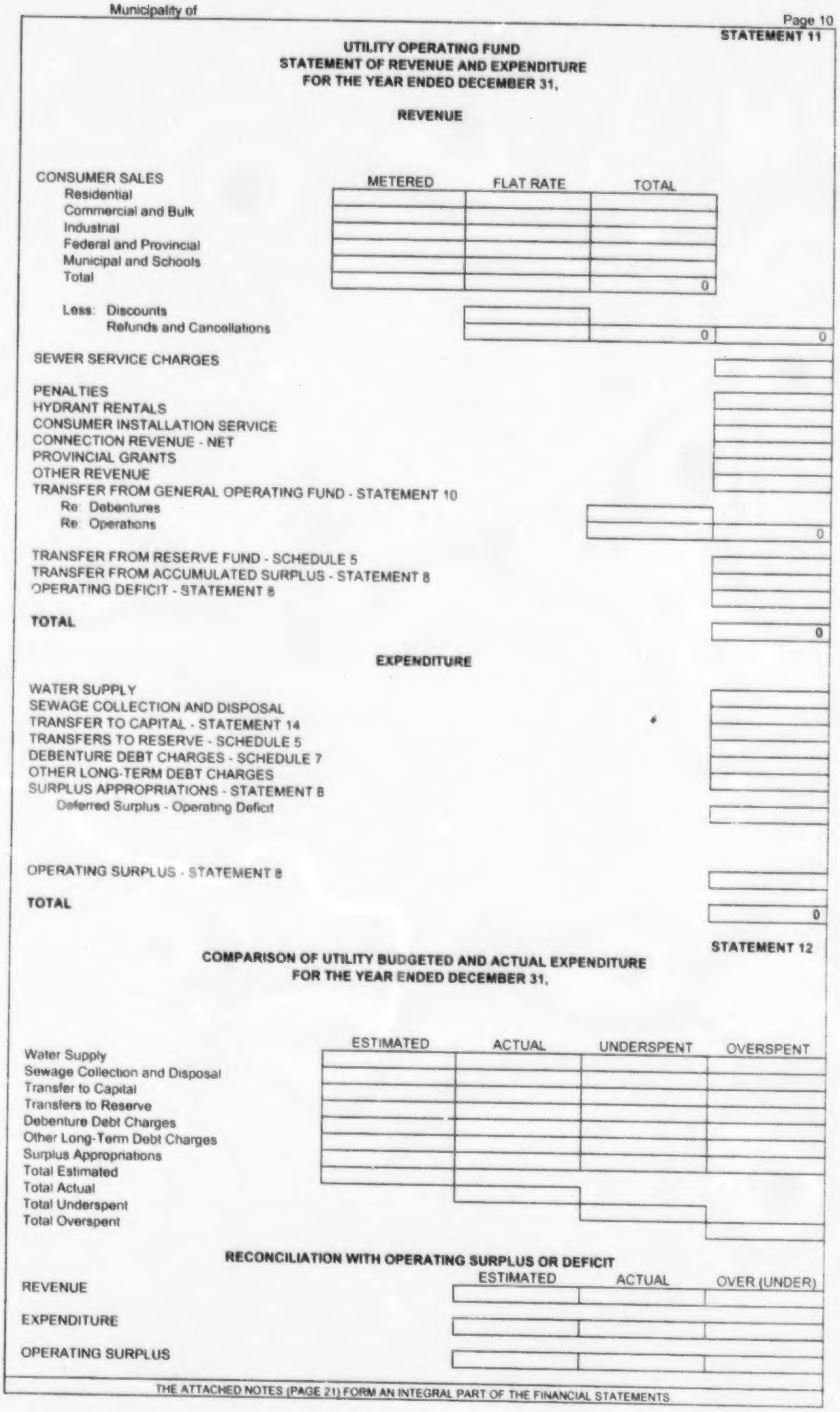

Municipality of

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STATEMENT 11

UTILITY OPERATING FUND
STATEMENT OF REVENUE AND EXPENDITURE
FOR THE YEAR ENDED DECEMBER 31,

REVENUE

	METERED	FLAT RATE	TOTAL	
CONSUMER SALES				
Residential				
Commercial and Bulk				
Industrial				
Federal and Provincial				
Municipal and Schools				
Total			0	
Less: Discounts				
Refunds and Cancellations			0	0
SEWER SERVICE CHARGES				
PENALTIES				
HYDRANT RENTALS				
CONSUMER INSTALLATION SERVICE				
CONNECTION REVENUE - NET				
PROVINCIAL GRANTS				
OTHER REVENUE				
TRANSFER FROM GENERAL OPERATING FUND - STATEMENT 10				
Re: Debentures				
Re: Operations				0
TRANSFER FROM RESERVE FUND - SCHEDULE 5				
TRANSFER FROM ACCUMULATED SURPLUS - STATEMENT 8				
OPERATING DEFICIT - STATEMENT 8				
TOTAL				0

EXPENDITURE

WATER SUPPLY	
SEWAGE COLLECTION AND DISPOSAL	
TRANSFER TO CAPITAL - STATEMENT 14	
TRANSFERS TO RESERVE - SCHEDULE 5	
DEBENTURE DEBT CHARGES - SCHEDULE 7	
OTHER LONG-TERM DEBT CHARGES	
SURPLUS APPROPRIATIONS - STATEMENT 8	
Deferred Surplus - Operating Deficit	
OPERATING SURPLUS - STATEMENT 8	
TOTAL	0

STATEMENT 12

COMPARISON OF UTILITY BUDGETED AND ACTUAL EXPENDITURE
FOR THE YEAR ENDED DECEMBER 31,

	ESTIMATED	ACTUAL	UNDERSPENT	OVERSPENT
Water Supply				
Sewage Collection and Disposal				
Transfer to Capital				
Transfers to Reserve				
Debenture Debt Charges				
Other Long-Term Debt Charges				
Surplus Appropriations				
Total Estimated				
Total Actual				
Total Underspent				
Total Overspent				

RECONCILIATION WITH OPERATING SURPLUS OR DEFICIT

	ESTIMATED	ACTUAL	OVER (UNDER)
REVENUE			
EXPENDITURE			
OPERATING SURPLUS			

THE ATTACHED NOTES (PAGE 21) FORM AN INTEGRAL PART OF THE FINANCIAL STATEMENTS

Appendix D

(cont'd.)

Municipality of

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STATEMENT 13

STATEMENT OF SOURCE AND APPLICATION OF GENERAL CAPITAL FUNDS
FOR THE YEAR ENDED DECEMBER 31,

SOURCE

UNEXPENDED FUNDS, JANUARY 1		
Cash		
Receivables		0
SHORT-TERM BORROWING		
Bank		
Other Funds		
Other		0
LONG-TERM BORROWING		
Debentures - Schedule 8		
Other		0
PREPAID LOCAL IMPROVEMENT LEVIES		
CAPITAL EXPENDITURES FROM REVENUE - STATEMENT 10		
CAPITAL EXPENDITURES FROM RESERVES - SCHEDULE 5		
GRANTS - SCHEDULE 3		
Federal Government		
Federal Government Enterprises		
Provincial Government		
Provincial Government Enterprises		
Other Local Governments		
Other		0
ACCOUNTS PAYABLE, DECEMBER 31		
OTHER		
TOTAL		0

APPLICATION

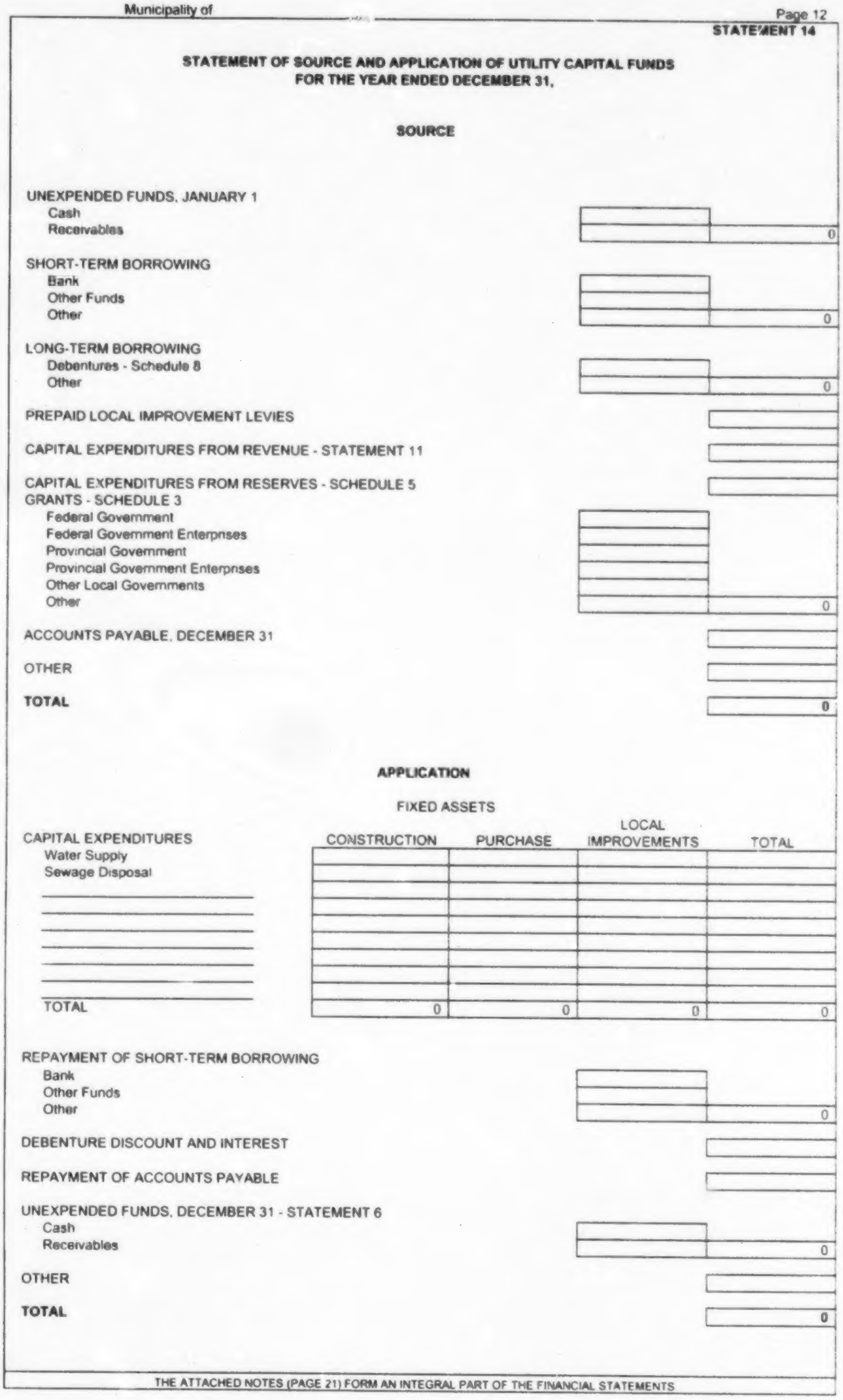
FIXED ASSETS

CAPITAL EXPENDITURES	CONSTRUCTION	PURCHASE	LOCAL IMPROVEMENTS	TOTAL
General Government				
Protection				
Transportation				
Recreation and Culture				
____________________				
____________________				
____________________				
____________________				
____________________				
TOTAL	0	0	0	0

REPAYMENT OF SHORT-TERM BORROWING		
Bank		
Other Funds		
Other		0
DEBENTURE DISCOUNT AND INTEREST		
REPAYMENT OF ACCOUNTS PAYABLE		
UNEXPENDED FUNDS, DECEMBER 31 - STATEMENT 3		
Cash		
Receivables		0
OTHER		
TOTAL		0

THE ATTACHED NOTES (PAGE 21) FORM AN INTEGRAL PART OF THE FINANCIAL STATEMENTS

Appendix D
(cont'd.)



Municipality of

Page 12
STATEMENT 14

STATEMENT OF SOURCE AND APPLICATION OF UTILITY CAPITAL FUNDS
FOR THE YEAR ENDED DECEMBER 31,

SOURCE

UNEXPENDED FUNDS, JANUARY 1		
Cash		
Receivables		0
SHORT-TERM BORROWING		
Bank		
Other Funds		
Other		0
LONG-TERM BORROWING		
Debentures - Schedule 8		
Other		0
PREPAID LOCAL IMPROVEMENT LEVIES		
CAPITAL EXPENDITURES FROM REVENUE - STATEMENT 11		
CAPITAL EXPENDITURES FROM RESERVES - SCHEDULE 5		
GRANTS - SCHEDULE 3		
Federal Government		
Federal Government Enterprises		
Provincial Government		
Provincial Government Enterprises		
Other Local Governments		
Other		0
ACCOUNTS PAYABLE, DECEMBER 31		
OTHER		
TOTAL		**0**

APPLICATION

FIXED ASSETS

CAPITAL EXPENDITURES	CONSTRUCTION	PURCHASE	LOCAL IMPROVEMENTS	TOTAL
Water Supply				
Sewage Disposal				
TOTAL	0	0	0	0

REPAYMENT OF SHORT-TERM BORROWING		
Bank		
Other Funds		
Other		0
DEBENTURE DISCOUNT AND INTEREST		
REPAYMENT OF ACCOUNTS PAYABLE		
UNEXPENDED FUNDS, DECEMBER 31 - STATEMENT 6		
Cash		
Receivables		0
OTHER		
TOTAL		**0**

THE ATTACHED NOTES (PAGE 21) FORM AN INTEGRAL PART OF THE FINANCIAL STATEMENTS

Appendix D
(cont'd.)

Municipality of

SCHEDULE 1

ANALYSIS OF TAX ASSETS
FOR THE YEAR ENDED DECEMBER 31,

	TOTAL	TAXES ON ROLL	TAX SALE CERTIFICATES	TAX TITLES	AGREEMENTS OF SALE
Balance, January 1					
ADD:					
Tax Levy - Schedule 2					
Taxes Added - Statement 9					
Penalties or Interest Added - Statement 9					
Other Accounts Added					
Taxes Overpaid					
Transfer Re Tax Sale					
Tax Titles Acquired					
Land Sales					
TAX ADJUSTMENTS (SPECIFY)					
____________					
____________					
____________					
SUB-TOTAL		0	0	0	0
DEDUCT:					
Cash Collections:		0			
Arrears					
Current					
Transfers Re Tax Sale					
Cancellations					
Returned to Roll					
Title Value of Land Sales					
Transfers Re Titles Acquired					
Tax Discounts - Statement 10					
M.P.T.C. - Cash Advance					
Other Credits: ____________					
BALANCE, DECEMBER 31	0	0	0	0	0

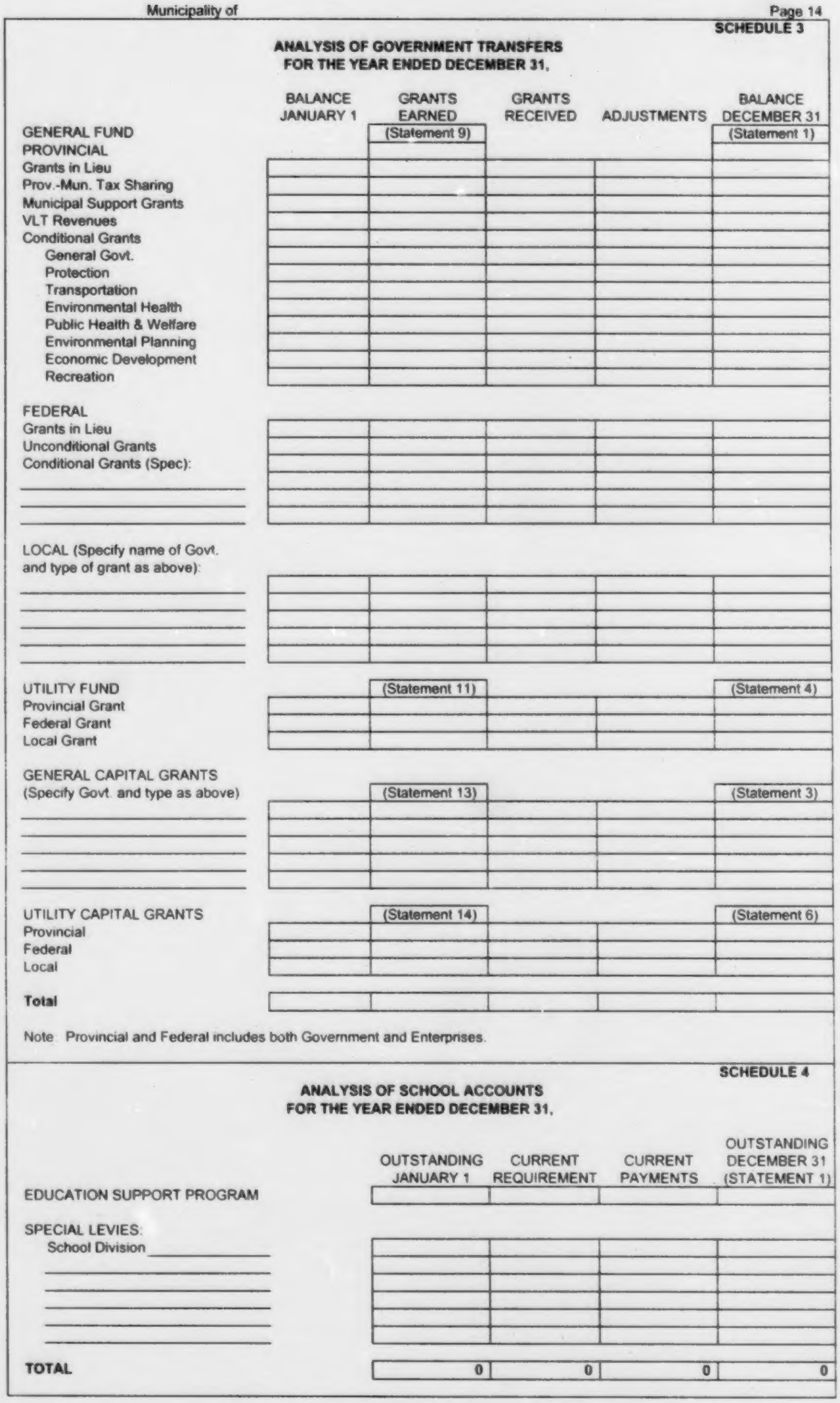
(Statement 1)

SCHEDULE 2

ANALYSIS OF TAX LEVY
FOR THE YEAR ENDED DECEMBER 31,

	ASSESSMENT	MILL RATE	LEVY
Other Governments (L.U.D.)			
____________			
____________			
Debt Charges			
Frontage			
Mill Rate (At Large)			
(L.I.D.)			
Total			
Minister of Intergovernmental Affairs			
Deferred Surplus			
Reserves: ________ By-Law ________			
________ By-Law ________			
________ By-Law ________			
General Municipal			
Special Levies (Specify)			
____________			
____________			
____________			
Business Tax - Rate ______ %			
Total Municipal Taxes			0
Schools			
Prov. Education 1			
Prov. Education 2			
Total Education Support Program			0
Special Division No. ____________			
____________			
____________			
____________			
____________			
Total School Taxes			0
TOTAL TAX LEVY - SCHEDULE 1			0

Appendix D
(cont'd.)



Municipality of

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SCHEDULE 3

ANALYSIS OF GOVERNMENT TRANSFERS
FOR THE YEAR ENDED DECEMBER 31,

	BALANCE JANUARY 1	GRANTS EARNED	GRANTS RECEIVED	ADJUSTMENTS	BALANCE DECEMBER 31
GENERAL FUND		(Statement 9)			(Statement 1)
PROVINCIAL					
Grants in Lieu					
Prov.-Mun. Tax Sharing					
Municipal Support Grants					
VLT Revenues					
Conditional Grants					
General Govt.					
Protection					
Transportation					
Environmental Health					
Public Health & Welfare					
Environmental Planning					
Economic Development					
Recreation					
FEDERAL					
Grants in Lieu					
Unconditional Grants					
Conditional Grants (Spec):					
____					
____					
____					
LOCAL (Specify name of Govt. and type of grant as above):					
____					
____					
____					
____					
____					
UTILITY FUND		(Statement 11)			(Statement 4)
Provincial Grant					
Federal Grant					
Local Grant					
GENERAL CAPITAL GRANTS (Specify Govt. and type as above)		(Statement 13)			(Statement 3)
____					
____					
____					
____					
____					
UTILITY CAPITAL GRANTS		(Statement 14)			(Statement 6)
Provincial					
Federal					
Local					
Total					

Note: Provincial and Federal includes both Government and Enterprises.

SCHEDULE 4

ANALYSIS OF SCHOOL ACCOUNTS
FOR THE YEAR ENDED DECEMBER 31,

	OUTSTANDING JANUARY 1	CURRENT REQUIREMENT	CURRENT PAYMENTS	OUTSTANDING DECEMBER 31 (STATEMENT 1)
EDUCATION SUPPORT PROGRAM				
SPECIAL LEVIES:				
School Division ____				
____				
____				
____				
____				
____				
TOTAL	0	0	0	0

Appendix D
(cont'd.)

Municipality of

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SCHEDULE 5

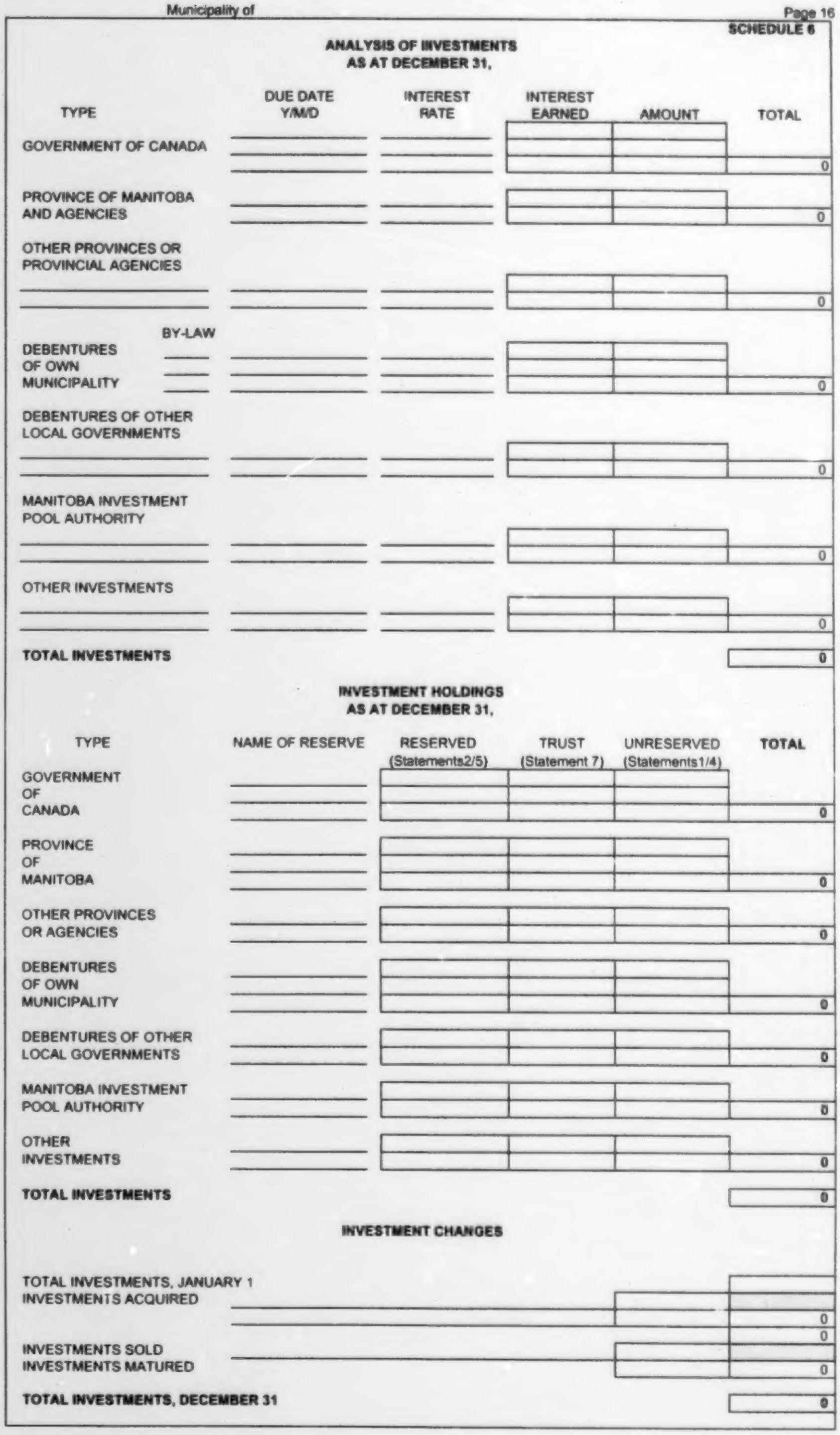
ANALYSIS OF RESERVE FUNDS
FOR THE YEAR ENDED DECEMBER 31,

RESERVE NAME BY-LAW NO.		GENERAL	EQUIPMENT REPLACEMENT		
BALANCE, JANUARY 1					
ADD:	Interest Earned				
	Transfer from Operating (Statement 10)				
SUB-TOTAL		0	0		
DEDUCT:	Purchases (Statement 13)				
	Transfer To Revenue (Statement 9)				
BALANCE, DECEMBER 31 - Statement 2		**0**	**0**		

RESERVE NAME BY-LAW NO.					
BALANCE, JANUARY 1					
ADD:	Interest Earned				
	Transfer from Operating (Statement 10)				
SUB-TOTAL					
DEDUCT:	Purchases (Statement 13)				
	Transfer to Revenue (Statement 9)				
BALANCE, DECEMBER 31 - Statement 2					

RESERVE NAME BY-LAW NO.		UTILITY REPLACEMENT	UTILITY	UTILITY	UTILITY
BALANCE, JANUARY 1					
ADD:	Interest Earned				
	Transfer from Operating (Statement 11)				
SUB-TOTAL		0			
DEDUCT:	Purchases (Statement 14)				
	Transfer To Revenue (Statement 11)				
BALANCE, DECEMBER 31 - Statement 5		**0**			

Appendix D
(cont'd.)



Municipality of

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SCHEDULE 6

ANALYSIS OF INVESTMENTS
AS AT DECEMBER 31,

TYPE	DUE DATE Y/M/D	INTEREST RATE	INTEREST EARNED	AMOUNT	TOTAL
GOVERNMENT OF CANADA					0
PROVINCE OF MANITOBA AND AGENCIES					0
OTHER PROVINCES OR PROVINCIAL AGENCIES					0
DEBENTURES OF OWN MUNICIPALITY BY-LAW					0
DEBENTURES OF OTHER LOCAL GOVERNMENTS					0
MANITOBA INVESTMENT POOL AUTHORITY					0
OTHER INVESTMENTS					0
TOTAL INVESTMENTS					0

INVESTMENT HOLDINGS
AS AT DECEMBER 31,

TYPE	NAME OF RESERVE	RESERVED (Statements2/5)	TRUST (Statement 7)	UNRESERVED (Statements1/4)	TOTAL
GOVERNMENT OF CANADA					0
PROVINCE OF MANITOBA					0
OTHER PROVINCES OR AGENCIES					0
DEBENTURES OF OWN MUNICIPALITY					0
DEBENTURES OF OTHER LOCAL GOVERNMENTS					0
MANITOBA INVESTMENT POOL AUTHORITY					0
OTHER INVESTMENTS					0
TOTAL INVESTMENTS					0

INVESTMENT CHANGES

TOTAL INVESTMENTS, JANUARY 1			
INVESTMENTS ACQUIRED			0
			0
INVESTMENTS SOLD			
INVESTMENTS MATURED			0
TOTAL INVESTMENTS, DECEMBER 31			0

Appendix D
(cont'd.)

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SCHEDULE 7

Municipality of

ANALYSIS OF DEBENTURE INDEBTEDNESS
AS AT DECEMBER 31,

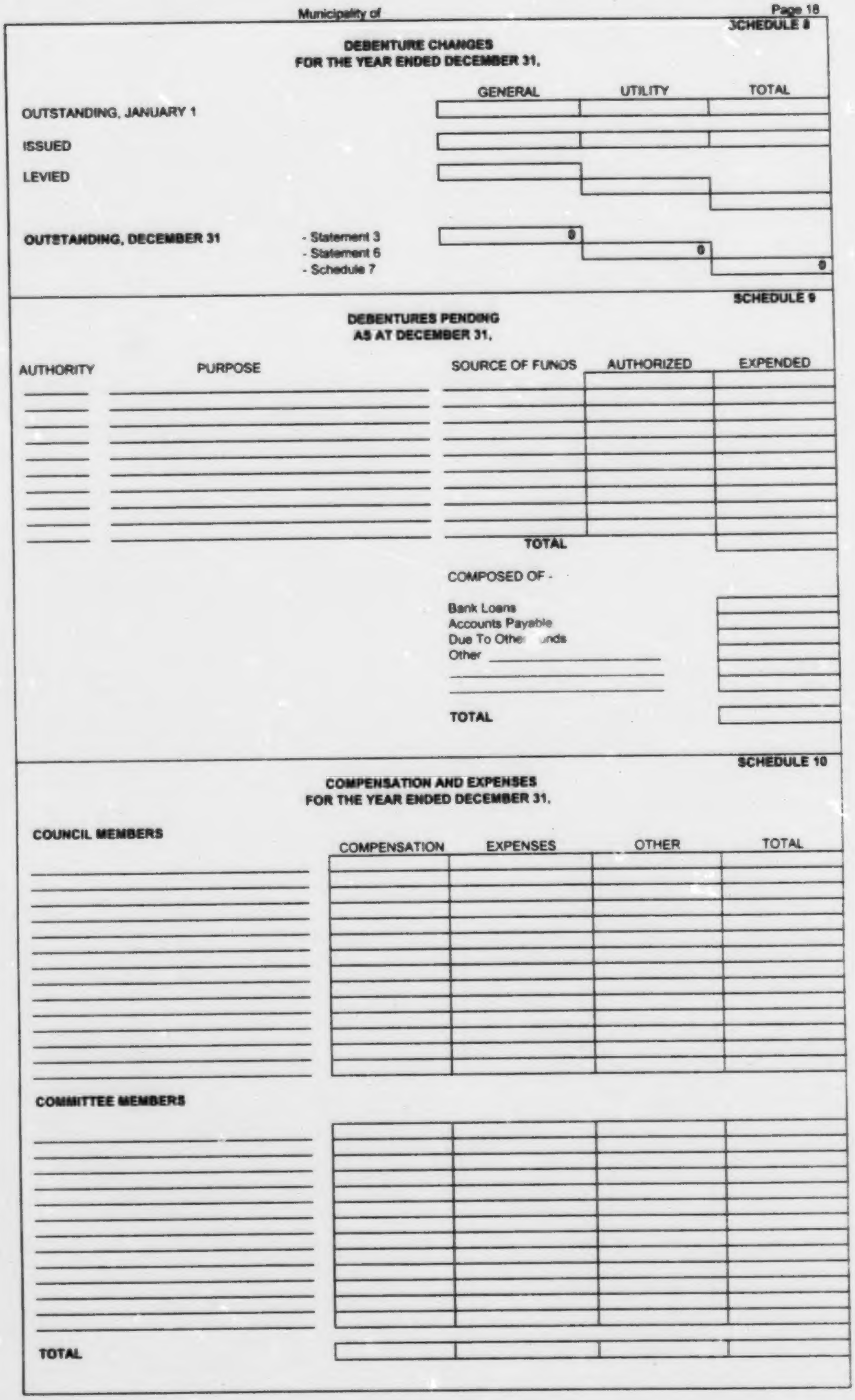
AUTHORITY	PURPOSE	YEAR OF ISSUE	ORIGINAL AMOUNT	PURCHASED BY (a)	PAYABLES	TERM	MATURITY DATE	INTEREST RATE	CURRENT LEVY		OUTSTANDING DECEMBER 31
									PRINCIPAL	INTEREST	

CURRENT LEVY 0 0

TOTAL PRINCIPAL OUTSTANDING, DECEMBER 31, - SCHEDULE 8 0

NOTE (a): INDICATE WHETHER TOTAL SERIES PURCHASED BY (A) FEDERAL GOVERNMENT (B) PROVINCIAL GOVERNMENT (C) OWN MUNICIPALITY (D) OTHER MUNICIPALITY (E) PUBLIC

Appendix D
(cont'd.)



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SCHEDULE 8

DEBENTURE CHANGES
FOR THE YEAR ENDED DECEMBER 31,

		GENERAL	UTILITY	TOTAL
OUTSTANDING, JANUARY 1				
ISSUED				
LEVIED				
OUTSTANDING, DECEMBER 31	- Statement 3	0		
	- Statement 6		0	
	- Schedule 7			0

SCHEDULE 9

DEBENTURES PENDING
AS AT DECEMBER 31,

AUTHORITY	PURPOSE	SOURCE OF FUNDS	AUTHORIZED	EXPENDED
		TOTAL		

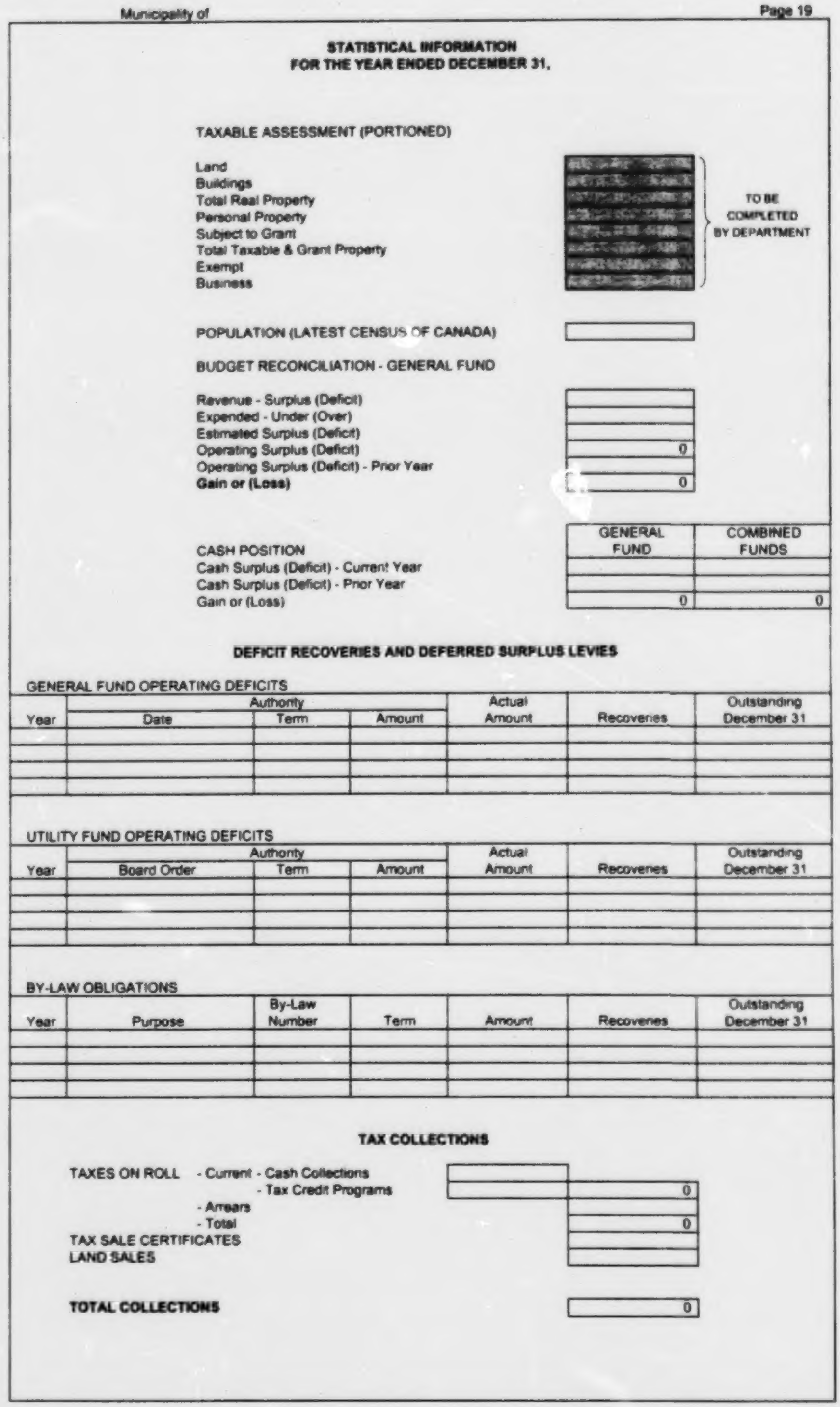
COMPOSED OF -	
Bank Loans	
Accounts Payable	
Due To Other Funds	
Other __________	
__________	
__________	
TOTAL	

SCHEDULE 10

COMPENSATION AND EXPENSES
FOR THE YEAR ENDED DECEMBER 31,

COUNCIL MEMBERS	COMPENSATION	EXPENSES	OTHER	TOTAL
COMMITTEE MEMBERS				
TOTAL				

Appendix D
(cont'd.)



Municipality of

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STATISTICAL INFORMATION
FOR THE YEAR ENDED DECEMBER 31,

TAXABLE ASSESSMENT (PORTIONED)

Land
Buildings
Total Real Property
Personal Property
Subject to Grant
Total Taxable & Grant Property
Exempt
Business

TO BE COMPLETED BY DEPARTMENT

POPULATION (LATEST CENSUS OF CANADA)

BUDGET RECONCILIATION - GENERAL FUND

Revenue - Surplus (Deficit)	
Expended - Under (Over)	
Estimated Surplus (Deficit)	
Operating Surplus (Deficit)	0
Operating Surplus (Deficit) - Prior Year	
Gain or (Loss)	0

CASH POSITION	GENERAL FUND	COMBINED FUNDS
Cash Surplus (Deficit) - Current Year		
Cash Surplus (Deficit) - Prior Year		
Gain or (Loss)	0	0

DEFICIT RECOVERIES AND DEFERRED SURPLUS LEVIES

GENERAL FUND OPERATING DEFICITS

	Authority			Actual		Outstanding
Year	Date	Term	Amount	Amount	Recoveries	December 31

UTILITY FUND OPERATING DEFICITS

	Authority			Actual		Outstanding
Year	Board Order	Term	Amount	Amount	Recoveries	December 31

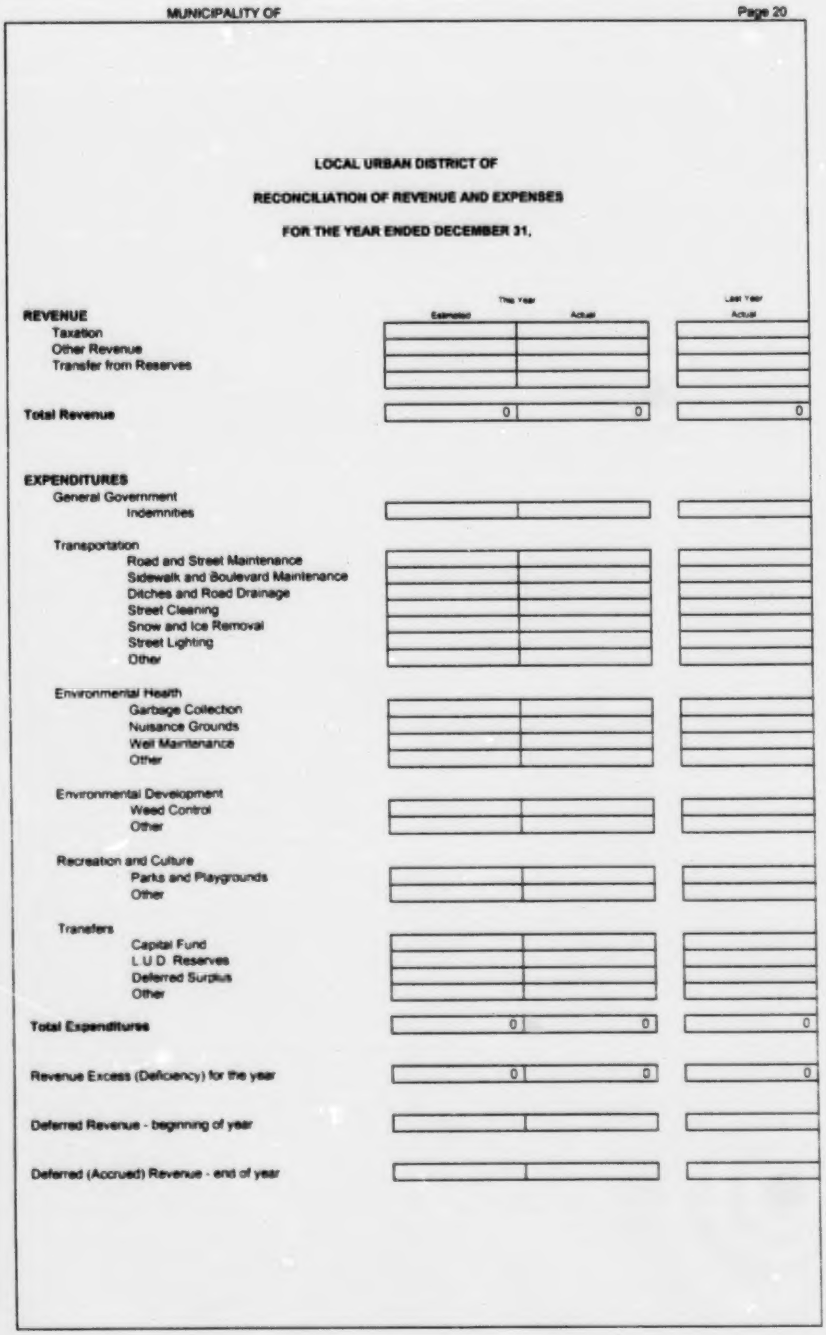
BY-LAW OBLIGATIONS

Year	Purpose	By-Law Number	Term	Amount	Recoveries	Outstanding December 31

TAX COLLECTIONS

TAXES ON ROLL - Current - Cash Collections		
- Tax Credit Programs		0
- Arrears		
- Total		0
TAX SALE CERTIFICATES		
LAND SALES		
TOTAL COLLECTIONS		0

Appendix D
(cont'd.)



MUNICIPALITY OF Page 20

LOCAL URBAN DISTRICT OF

RECONCILIATION OF REVENUE AND EXPENSES

FOR THE YEAR ENDED DECEMBER 31,

	This Year		Last Year
	Estimated	Actual	Actual
REVENUE			
Taxation			
Other Revenue			
Transfer from Reserves			
Total Revenue	0	0	0
EXPENDITURES			
General Government			
Indemnities			
Transportation			
Road and Street Maintenance			
Sidewalk and Boulevard Maintenance			
Ditches and Road Drainage			
Street Cleaning			
Snow and Ice Removal			
Street Lighting			
Other			
Environmental Health			
Garbage Collection			
Nuisance Grounds			
Well Maintenance			
Other			
Environmental Development			
Weed Control			
Other			
Recreation and Culture			
Parks and Playgrounds			
Other			
Transfers			
Capital Fund			
L U D Reserves			
Deferred Surplus			
Other			
Total Expenditures	0	0	0
Revenue Excess (Deficiency) for the year	0	0	0
Deferred Revenue - beginning of year			
Deferred (Accrued) Revenue - end of year			

Appendix D
(cont'd.)

Municipality of

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NOTES TO FINANCIAL STATEMENTS

SURVEY OF FINANCIAL STATEMENTS SUMMARIZED BY AREAS WHERE MANITOBA IS IN NON-COMPLIANCE WITH PSAB RECOMMENDATIONS

Appendix E

Summary of Areas of PSAB Where Manitoba is Generally Non-Compliant		Manitoba	PSAB Provinces			
		No	Yes	No	Unable to Determine	N/A
1300	Government Reporting Entity					
0.20	Government financial statements should consolidate the financial statements of organizations comprising the government reporting entity, except for government business enterprises.	12	11	0	0	1
0.28	Government business enterprises should be accounted for by the modified equity method.	12	4	0	0	8
0.32	Government financial statements should disclose, in notes or schedules, a listing of the major organizations comprising the reporting entity, separately identifying those that are consolidated and those that are accounted for by the modified equity method.	12	4	0	0	8
1700	Objectives of Financial Statements Local Governments					
0.30	Financial statements should communicate reliable information relevant to the needs of those for whom the statements are prepared, in a manner that maximizes its usefulness. As a minimum, this requires information that is clearly presented, understandable, timely and consistent.	12	12	0	0	0
0.38	Financial statements should be clearly identified and should include or be accompanied by an acknowledgment of the local government's responsibility for their preparation.	12	9	3	0	0
0.46	Financial statements should be presented in such form and use such terminology and classification of items that significant information is readily understandable.	12	12	0	0	0
0.48	Financial statements should present a comparison of current period amounts with those of the prior period.	12	12	0	0	0
0.50	The bases for determining the reported amounts of assets and liabilities should be applied consistently and, where the bases are not self-evident, they should be disclosed.	12	12	0	0	0
0.59	Notes and supporting schedules in financial statements should not be used as a substitute for proper accounting treatment.	12	12	0	0	0
0.63	Financial statements should provide an accounting of the full nature and extent of the financial affairs and resources for which the local government is responsible including those related to the activities of its agencies and enterprises.	12	12	0	0	0
0.71	The government reporting entity should comprise the organizations that are accountable for the administration of their financial affairs and resources either to a minister of the government or directly to the legislature, or local government council, and are owned or controlled by the government.	12	12	0	0	0
0.77	Financial statements should disclose, in a note or schedule, a description of trusts under administration by a local government and a summary of trust balances.	12	7	2	2	1
0.80	Financial statements should demonstrate the accountability of a local government for the financial affairs and resources entrusted to it.					
	(a) Financial statements should provide information useful in evaluating the local government's performance in the management of financial affairs and resources.	12	2	0	10	0
	(b) Financial statements should provide information useful in assessing whether financial resources were administered by the local government in accordance with the limits established by the appropriate legislative and regulatory authorities.	12	2	0	10	0
0.104	Financial statements should disclose expenditures of the accounting period by object.	12	11	1	0	0
0.107	Financial statements should disclose the gross amounts of expenditures.	12	12	0	0	0
0.111	Financial statements should disclose the gross amounts of revenues.	12	12	0	0	0
0.116	Financial statements should present information to display the state of a local government's finances.					
	(b) Financial statements should provide information useful in evaluating the ability of a local government to finance its activities and to meet its liabilities and commitments.	12	12	0	0	0
0.122	Financial statements should provide information about a local government's physical assets.	12	7	5	0	0
0.129	Financial statements should disclose information to describe a local government's material financial commitments at the end of the accounting period.	11	10	0	0	2
0.133	Financial statements should disclose information to describe a local government's material contingencies at the end of the accounting period.	8	11	0	0	1

Appendix E
(cont'd.)

Summary of Areas of PSAB Where Manitoba is Generally Non-Compliant		Manitoba	PSAB Provinces			
		No	Yes	No	Unable to Determine	N/A
1800	**General Standards of Financial Statement Presentation Local Governments**					
0.07	Financial statements should include, as a minimum, a statement of financial position, a statement of financial activities and a statement of changes in financial position.	12	12	0	0	0
0.13	The statement of financial position should, as a minimum, report all of a local government's financial assets and liabilities at the end of the accounting period.	12	12	0	0	0
0.17	The statement of financial position should report a local government's financial assets at the end of the accounting period segregated by main classifications.	12	12	0	0	0
0.18	Financial statements should disclose adequate information about the nature and terms of a local government's financial assets together with any valuation allowances.	12	12	0	0	0
0.25	The statement of financial position should report a local government's liabilities at the end of the accounting period segregated by main classifications.	12	12	0	0	0
0.26	Financial statements should disclose adequate information about the nature and terms of a local government's liabilities.	10	12	0	0	0
0.33	The statement of financial activities should account for the difference between a local government's revenues and expenditures, adjusted for any changes in valuation allowances, in the accounting period.	12	12	0	0	0
0.36	The statement of financial activities should account for the combined change in the balances of a local government's funds in the accounting period.	12	12	0	0	0
0.42	Expenditures should be accounted for in the period the goods and services are acquired and a liability is incurred, or transfers are due.	12	12	0	0	0
3040	**Portfolio Investments**					
0.27	Income from portfolio investments should be reported separately on the statement that reports the surplus or deficit in the accounting period.	6	8	2	0	2
3230	**Long-Term Debt**					
0.03	When a government has externally restricted sinking funds to set aside to retire its long-term debt, the following information should be provided:					
	(a) the gross amount of the long-term debt to be retired by the sinking funds.	12	5	1	0	6
0.15	Financial statements should disclose information to highlight the composition of a government's long-term debt as follows:					
	(c) the net amount reported on the consolidated statement of financial position.	11	10	0	0	2
0.17	Financial statements should disclose adequate information about the nature and terms of a government's long-term debt, as described in paragraph PS 3230.15(a), including:					
	(c) an appropriate description of repayment dates and amounts and the nature of the repayment; and	11	8	3	0	1
	(d) any amounts payable on demand.	11	0	0	0	12
0.18	Financial statements should disclose the aggregate amount of payments estimated to be required in each of the next five years and thereafter to meet sinking fund or retirement provisions for the debt disclosed in accordance with paragraph PS 3230.15(a), as well as the amounts to be recovered in each of those years and thereafter from government business enterprises in relation to the debt disclosed in accordance with paragraph PS 3230.15(b).	11	9	1	0	2

Appendix E
(cont'd.)

Summary of Areas of PSAB Where Manitoba is Generally Non-Compliant		Manitoba	PSAB Provinces			
		No	Yes	No	Unable to Determine	N/A
3270	Solid Waste Landfill Closure and Post-Closure Liability					
0.13	Financial statements should recognize a liability for closure and post-closure care as the landfill site's capacity is used.	12	5	4	0	3
	Usage should be measured on a volumetric basis (e.g., cubic metres).	12	4	6	0	2
0.21	The notes to the financial statements should disclose:					
	(a) the nature and source of landfill closure and post-closure care requirements;	12	5	5	0	2
	(b) the basis of recognition and measurement of the liability for closure and post-closure care;	12	5	5	0	2
	(c) the reported liability for closure and post-closure care at the balance sheet date, the estimated total expenditures for closure and post-closure care, and the amount remaining to be recognized;	12	5	5	0	2
	(d) the remaining capacity of the site and the estimated remaining landfill life in years;	12	4	6	0	2
	(e) how any requirements for closure and post-closure care financial assurance are being met, e.g., performance bonds;	12	2	8	0	2
	(f) the amount of any assets designated for settling closure and post-closure care liabilities;	12	0	4	0	8
	(g) the estimated length of time needed for post-closure care.	12	4	6	0	2
3410	Government Transfers					
0.56	Financial statements should disclose:					
	(a) a clear and concise description of accounting policies regarding government transfers (see DISCLOSURE OF ACCOUNTING POLICIES, Section PS 2100); and	12	8	4	0	0
	(b) major kinds of transfers made or received.	12	2	10	0	0

Appendix F

SUPPLEMENTARY REPORT SECTION OF MANITOBA MUNICIPAL ACT

Section 190(2) of The Municipal Act

Auditor to submit supplement with report
190(2)

The auditor must submit with the report a supplement containing the following:

a) a statement of opinion as to whether the accounting procedures and systems of control employed by the municipality are adequate to preserve and protect its assets;

b) a statement of opinion as to whether the funds of the municipality have been disbursed only under an authority granted by an Act, or by a resolution or by-law passed or an authority granted under an Act;

c) a statement as to whether any irregularity or discrepancy came to the auditor's attention during the audit;

d) a statement as to any matters not referred to in clauses (a) to (c) that the auditor considers the Minister or Council should be aware of; and

e) any recommendation the auditor considers necessary or advisable regarding the proper performance of duties and the keeping of records and books of account by the chief administrative officer or other employees.

Appendix G

LIST OF LOCAL GOVERNMENTS INCLUDED IN THE SURVEY

Local Governments in Survey of PSAB Provinces

1. City of Calgary, Alberta
2. City of Edmonton, Alberta
3. Lake Simcoe Conservation, Ontario
4. City of Lethbridge, Alberta
5. City of London, Ontario
6. City of Medicine Hat, Alberta
7. City of Mississauga, Ontario
8. Town of Oakville, Ontario
9. City of Red Deer, Alberta
10. City of Regina, Saskatchewan
11. City of St.Albert, Alberta
12. Region of York, Ontario

Local Governments in Survey in Manitoba

1. Rural Municipality of Gimli
2. Rural Municipality of Tache
3. Rural Municipality of East St. Paul
4. Rural Municipality of Springfield
5. Rural Municipality of St. Andrews
6. Rural Municipality of Rockwood
7. Rural Municipality of Ritchot
8. Rural Municipality of Portage La Prairie
9. Rural Municipality of Macdonald
10. Rural Municipality of Hanover
11. Rural Municipality of St. Clements
12. City of Brandon

Appendix H

TYPES OF GRANTS AND PAYMENTS ADMINISTERED TO MANITOBA MUNICIPALITIES FOR 2000/01

Grants and payments administered to the City of Winnipeg for 2000/01*:

- Provincial – Municipal Tax Sharing Payments (PTMS)
- Unconditional Current Programs Grant
- Transit Operating Grant
- General Support Grant
- Dutch Elm Disease Control Grant
- Grant in Lieu of Taxes (GIL)
- Urban Community Development (VLT) Grants
- Urban Capital Projects Allocation (UCPA) Grants
- Residential Street Renewal Program Grants

Grants and payments administered to municipalities outside the City of Winnipeg for 2000/01:

- Provincial – Municipal Tax Sharing Payments (PTMS)
- Unconditional Grant – Rural Community Development (VLT)
- Municipal Support Grant
- Grant in Lieu of Taxes (GIL)
- Transit Grant
- Mobility Disadvantaged Transportation Grant

*Source: Department of Intergovernmental Affairs Annual Report 2000/01.

Audit of recipient of public money

15(1) The Auditor General may conduct an examination and audit in respect of public money received by a recipient of public money, including the matters listed in subsection 14(1), and may require the recipient to prepare and give to the Auditor General the financial statements setting out the details of the disposition of the public money received.

No obstruction

15(2) No person shall obstruct or provide false or misleading information to the Auditor General or a person employed under the Auditor General in conducting an examination or audit under this section, or conceal or destroy any records or things relevant to an examination or audit.

Reliance on report of other auditor

15(4) The Auditor General may rely on the report of an auditor appointed by a recipient of public money.

Special audit request

16(1) When requested to do so by the Lieutenant Governor in Council or the Minister of Finance, or by resolution of the Standing Committee on Public Accounts, the Auditor General may examine and audit the accounts of a government organization, recipient of public money or other person or entity that in any way receives, pays or accounts for public money. But the Auditor General is not obliged to do so if he or she is of the opinion that it would interfere with the primary responsibilities of the Auditor General.

Access to information

18(2) The Auditor General may require and is entitled to receive any information necessary for the purpose of this Act from

(a) any person in the public service or formerly in the public service;

(b) any current or former director, officer, employee or agent of a government organization or of a recipient of public money; or

(c) any other person, organization or other body that the Auditor General believes on reasonable grounds may have information relevant to an examination or audit under this act.